

# Treasury Committee

## Oral evidence: Future of Financial Services, HC 147

Wednesday 2 March 2022

Ordered by the House of Commons to be published on 2 March 2022.

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

Questions 617-724

### Witnesses

I: John Glen MP, Economic Secretary, HM Treasury; Gwyneth Nurse, Director-General, Financial Services, HM Treasury; Guy Opperman MP, Minister for Pensions and Financial Inclusion, Department for Work and Pensions.

### Examination of Witnesses

Witnesses: John Glen, Gwyneth Nurse and Guy Opperman.

Q617 **Chair:** Good afternoon and welcome to the Treasury Select Committee's concluding hearing on the future of financial services inquiry. I am very pleased to be joined by three witnesses this afternoon, whom I will ask to very briefly introduce themselves to the Committee, please.

**John Glen:** I am John Glen, Member of Parliament for Salisbury and Economic Secretary to the Treasury since January 2018.

**Guy Opperman:** I am Guy Opperman, Member of Parliament for Hexham and Minister for Pensions since the summer of 2017. I should probably make a declaration, as it is relevant to this. I set up two small banks in 2015-16.

**Gwyneth Nurse:** I am Gwyneth Nurse, director-general of financial services at the Treasury.

Q618 **Chair:** Welcome to all three of you. Thank you for joining us. John, can I start with you? Post-Brexit, we know there are all these opportunities out there. We have HMT's proposals around a secondary growth and competitiveness objective for regulators, and we have had all these various reviews, Hill, Kalifa, Solvency II, wholesale markets reform and so on. There is a lot happening. In the evidence we have heard before



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this Committee, some have suggested a concern that the regulatory pendulum might swing too far the other way, towards competitiveness and growth, etc, and away from prudence, if I might term it that way. What is your view on that? What approach will the Treasury take to ensure that that problem does not arise?

**John Glen:** I recognise that that is a concern that some have raised. We are doing, and have done, a lot of work to consult in order to try to get this absolutely right. By the end of this month, we will have done 30 consultations since July last year, on various aspects of reform. You listed, Chair, some of the ones that we have already made announcements on, but the key and core element is the future regulatory framework, which we aim to legislate for, time permitting, in the next session.

If I just think about the first principles of this, we are in a situation where we decided to leave the institutional framework of the EU and, collectively, that means we have a responsibility to set something up that retains the high standards that are so instrumental in our reputation as a global centre for financial services, but does so in a way where we do not replace one remote body—as it was perceived by some, in terms of the Commission and directives that came from it, even though we played a very significant role in shaping some of those—with another one that is remote and unaccountable even if it is geographically based in London or in the United Kingdom. We have set out the principles of what we are going to do through this future regulatory framework, where we have gone through two consultations. We have set out a growth and competitiveness secondary objective for both the PRA and the FCA. Then we are working through, in different elements, how we would create accountabilities for that.

It is obviously for Parliament to determine how they are held to account in respect of the decisions they have made, and that is not a matter for me, but there is then a matter of how decisions are looked at, how we examine them, how the Treasury asks them to do things and what that interaction is like. That is very critical. Though we will set out objectives in primary legislation, we will allow them the autonomy—which is very important for them to have in order to do what they are respected for doing—to develop technical standards, as we would not be able to do in the Treasury, but be accountable for those against the objectives that we set.

It is incumbent upon me, as I take that legislation through in due course, to set out the accountabilities and the checks and balances that fundamentally exist in that way. We have the primary objectives. There are secondary operational objectives and regulatory principles. We have remit letters. Last year, in the Financial Services Act, we had some “have regards” as well and it will be building on that. We are not doing this on a blank canvas and, of course, the regulators are subject to all of those as we stand at the moment.



Q619 **Chair:** Where do you sit, as you look at the changes that are coming down the line in terms of regulation? A number of them are beginning to take shape, such as Solvency II—you made a very interesting speech the other day and you are consulting on that—the Hill review and so on. What are the areas where there is most danger, potentially, that you are looking at most closely when it comes to getting that balance right between freeing things up on the one hand and making sure that the system is properly protected on the other?

**John Glen:** I have always seen it as quite a complicated area. It is not like there are several areas where we expect there to be an intervention by the regulator that will, overnight, change either the competitiveness of financial services or create some considerable additional consumer risk. It is iterative over time. With innovation in financial services, we think about the way that markets operate. Over the last 10 years we have seen how fintechs have grown. We have seen how new products like buy now, pay later have come on to the market. They present new challenges and opportunities for consumers, and new responsibilities for regulators.

I do not have a list. Solvency II is a particular case on which, if you wish, I can go into the rationale and the dynamic between us and the PRA. There are lots of areas where we will continue to have to work, looking at what is happening in other jurisdictions, our friends in the EU and beyond, and work out what is right for the UK. Our obligation is to set up the right framework, and the PRA and FCA's obligation is to get this right for the United Kingdom.

Q620 **Chair:** You must be thinking, in the back of your mind, that there are areas of regulatory change that are an opportunity, where you are potentially going to feel your way a little more carefully than others. I just wondered what those areas were.

**John Glen:** Solvency II is a good example. This is the framework that we had some influence over when we were in the EU. It did not land optimally for the UK. Particularly our life insurance sector in the UK is different and relies more on annuities than elsewhere in the continent of Europe. It was never optimised. There are two real elements that govern Solvency II, which sets and allows the amount of capital that insurance companies have to play with. There is the risk margin, which we have now announced we are going to reduce by 60% to 70%, and then there is the matching adjustment. We are going to consult next month on the underpinning assumptions around the spread that actually govern that. We will listen very carefully to that.

We are still doing that with the PRA, with Sam Woods and an excellent team that he works with there. We hope that we will be able to come up with a solution everyone can agree with, but in the end we will have to legislate for that as part of the legislation that will come through. That will perhaps give us a 10% to 15% uplift in the amount of capital that insurance companies have to invest, and it will allow them to invest in a



wider range as well, which is very important and has some macroeconomic advantages.

Q621 **Chair:** You mentioned there the iterative process of change. You are right; it is going on all over the terrain and is all interacting in different ways. When we took evidence from Professor David Aikman, he cited just that process as one of the reasons why you can end up with huge complexity around supervision, enforcement, the whole thing.

He said, and I am loosely quoting him here, that the complexity of regulation can be such that only Sam Woods at the PRA would understand it. Do you have sympathy with that view? What is your view on that comment? Is there more we need to do?

**John Glen:** Sam Woods is an exceptional public servant.

**Chair:** He is.

**John Glen:** He is a very clever man, cleverer than I am, probably—in fact, certainly.

**Chair:** I do not know whether he is cleverer than you, but you are both very clever.

**John Glen:** Having spoken to him on a six-weekly basis for four years, I think he is certainly more intelligent than I am, but that is not what it is about. It is actually about getting things right. From buy now, pay later to pension plans, wholesale markets and to double volume caps, I have tried to look at what is the appropriate and right way to go. When we did the listings review, we looked at what we could do to enhance the attractiveness of London as a jurisdiction. We had 120 IPOs; we had record capital raising last year since 2007, but there is still further to go if we are going to compete well with New York.

It is always helpful to be clear and simplify, but in this industry, with the complexity, reconciling prudential stability, enabling innovation and dealing with the risks that will inevitably exist in innovation for consumers is quite a complex equation to deal with. The PRA and FCA work very closely with us and independently to deliver the sorts of interventions to try to make that a thriving industry, which I think it is.

Q622 **Chair:** Do you feel you have a good handle on the element of complexity and you are taking the right approach to it, going forward? It has been raised as a concern by the Committee.

**John Glen:** We can talk about it in theory or with respect to specific areas. It is probably best borne out by talking about specific areas. It is never going to be simple, but we can simplify things somewhat and remove elements around information flows and requests for information. For example, in the wholesale capital markets area—I made a speech yesterday at AFME—we have removed some of those requirements that came from MiFID II because there is widespread recognition in the market that, actually, for example, with the double volume caps, they are



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not materially necessary. They were good in theory, but not in practice, and in other jurisdictions they do not have them.

In that case, we can simplify, but we want to do so in a way that does not reduce the reputation we have for high standards and standards that can be replicated in other jurisdictions.

**Q623 Chair:** When we were at the table, going back 10 years, looking at regulation, with the Americans in particular, it is fair to say we landed in not a bad place in terms of where we wanted to be as a jurisdiction. One of the points that Lloyd's of London made to the Committee quite strongly was that, if you change regulation, you bring into play additional costs simply because the market clearly has to assess those and adjust the way it responds, et cetera. It is often the case that, if the starting point was not that bad in the first place, as I have suggested, and there are big costs associated simply with consuming or taking on board the new regulation, you can end up in a negative position as a consequence. Do you recognise that? Is it something that you think about quite carefully?

**John Glen:** I do. Let us take something like the ringfencing review, which I think Sam Woods personally had a direct role in delivering. It was part of a mechanism to deal with the resolution regime and make it easier to distinguish what activities were going on and where. Over time, that has come under question by Sam of whether it impedes competitiveness or not. We have asked Keith Skeoch to do a review. He will imminently publish that review and we will look carefully at that. The principle that that was driving at, and the purpose of it, was to have a resolution regime so that big banks could not get merged into an amorphous entity, where you could not distinguish what was sound and what was not, and you could intervene.

If the resolution regime is moved on to a level where that ringfencing does not quite perform the same function it did 10 years ago, it is right that you should look at that. To your point, which I think is that all change has costs, so be careful because you create more messiness, that is why, in the wholesale markets review, we have done some things that are no brainers from the consultations, but there are other things that we will look at over time to see if they are needed at a further point and if there is not a consensus at this point. I do not want to give the City or any financial services institution change for the sake of change. I want to do it on a reasoned basis with their support, if I can, in order that we remove the burdens that are sometimes expensive.

We had an innovation nearly three years ago with a grid of all the initiatives that were coming out of all the regulators. That has been great to have. It is now necessary that those initiatives are prioritised because we need to work out where we can make things easier while never compromising on high standards. I do not think people have said, when we have made these announcements, that this is a deregulatory or



reckless event. I would not be keen to do it if that was the case or if that was the consensus around some of the things we have done.

**Q624 Anthony Browne:** My first question is on the process of reform that you are going through at the moment. When you last appeared at the Committee, we talked about the architecture of future regulatory reform, but I now want to look at a lower level. You have touched on some of it, but, when we left the EU, we imported all the EU regulation, a lot of very detailed regulatory technical standards from the various EU regulators, into UK law, as it was presented in the EU. What is the process now in terms of properly onboarding that within the UK? You have the various reviews that you just touched on, which will look at very specific things, but there is quite a lengthy process to go through all this, is there not? I just wondered if you could take us through that.

**John Glen:** Basically, we have EU retained law, which we put on the statute book through all those statutory instruments that we did. Do you remember them?

**Anthony Browne:** I do.

**Alison Thewliss:** How would I forget them?

**John Glen:** Alison was sat in all the committees as well. Having done those, we now have an opportunity to set them aside and pass responsibility for them, going forward, to the PRA and the FCA. We are not doing that in a single big bang moment. That is a piece of work that will happen over time and it will be on a prioritisation basis, based on conversation and work with the PRA and the FCA. We are giving responsibility for the FCA and PRA to set those rules and to right-size them for the UK in conversation and consultation with industry. That is the high-level principle and the future regulatory framework is the basis for that.

There are lots of elements that come into that, for example how the cost benefit analysis will be initiated and on what basis, statutory or not, that would be formed. Would it be pre-intervention or not? Back to the point that I made to the Chair at the start, we have to get this in a situation where we deliver something that has accountability and real responsibility for delivering clear. We cannot give it over to regulators without any sense.

Indeed, I think Sheldon Mills and Vicky Saporta have come before the Committee and have been very open about their willingness to continue to be accountable on that. To what extent there needs to be an evolution in that scrutiny process is a matter for Parliament and for you, no doubt, but the principle is that we will be giving responsibility to those who are well placed to build those technical standards, make the interventions and have that conversation ongoing with industry.

**Q625 Anthony Browne:** First of all, do you have a view on how long this will all take? Is there an end date where you think we will finally have a



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financial services regulatory framework with a Union Jack on it as opposed to something imported?

**John Glen:** We are taking the legislation forward for the framework, I hope, in the next session at some point. In terms of when all of it is converted over to the regulators, we do not have a roadmap for a specific point in time. It will obviously need to be prioritised.

**Anthony Browne:** It is tens of thousands of pages of regulation.

**John Glen:** Yes. It has never been expected to be a single big bang moment.

Q626 **Anthony Browne:** It could take a decade, could it not?

**John Glen:** I do not know how long it will take. I can create a nice headline by speculating, but I do not think there is any purpose in that.

**Anthony Browne:** I am not asking you to. I just wondering whether you had a plan.

**John Glen:** "Minister says it will take 30 years to get rid of it". Dan Hannan would love that.

**Guy Opperman:** Do not say it.

**Alison Thewliss:** He has said it now. That is it.

**Guy Opperman:** They will clip that.

Q627 **Anthony Browne:** When you are taking the retained EU law and looking to bring it to the PRA and FCA to make it full UK, there are obviously bits like Solvency II, et cetera, that you are doing full reviews of. I assume that will be included in that, but there will be other bits where, presumably, you are deciding whether to give it to the PRA or FCA or whether to have it as a statutory instrument for Ministers to decide in the future. I am just wondering what the process is for how you would decide where to give different powers and what the basis for that is.

**John Glen:** The PRA and FCA are fundamentally constituted, following the reforms from the last crisis, to do the prudential stuff and then the conduct matters. Since then, we have had the Payments Systems Regulator and there are other specialist organisations. The principle of how they both operate will be set out in the legislation, and the accountabilities they have will be set out too.

**Anthony Browne:** If you have a bit of EU legislation, say the recovery and resolution directive, at some point you are going to presumably look at that.

**John Glen:** What, sorry?

**Anthony Browne:** The recovery and resolution directive. I do not know whether Gwyneth wants to get involved in this.



**John Glen:** My job is to stop her from talking. That is what I said to you, did I not?

**Gwyneth Nurse:** I am happy with that.

Q628 **Anthony Browne:** You will be transferring that from retained EU law to be fully incorporated within the UK system, but there will be parts of that you might want to give to the PRA and parts of that you might want to keep as a statutory instrument for Ministers. Maybe some of it needs primary legislation; I do not know. What is the process you go through for deciding which bits go at what level?

**John Glen:** Gwyneth, you are eager to get involved, are you not, on this point of detail?

**Gwyneth Nurse:** On this point of detail, only.

**Anthony Browne:** It is quite an important point because it is about what powers the Government retain versus what powers go to the regulator.

**John Glen:** It is an important detail.

**Anthony Browne:** How do you decide to give this power to the regulator and this power to the Government?

**Gwyneth Nurse:** The real answer is that we are still working through that as part of putting in place the future regulatory framework. In the instructions for the legislation that will be taken forward as soon as there is legislative time, that will be set out. It will be a mixture, and it will depend on the file. We will go file by file, and I do not think there is going to be a one-size-fits-all approach. It will very much depend on the significance of the file. We cannot yet say, "It is going to be worded exactly like this".

**John Glen:** I totally concur with that. That is exactly what we are doing. It is not a simple process where you can apply a simple external logic. It will be a question of asking, "What makes sense here? How do we give the technical freedom to the right people to do it, but keep the right balance in terms of the accountability and licence to Parliament?"

Q629 **Anthony Browne:** In this process, how would other stakeholders, like industry and consumer groups, input into this? You obviously have your public consultations for the bits you are doing now, but what about the rest of this huge body of work?

**John Glen:** As I said, I am doing 30 consultations. I have a list somewhere here, which I will not go through because it will take too long, of how many we have responded to, how many we are about to respond to and how many we are still waiting on. If I look at all the things that have happened in recent years, they involve a massive amount of consultation with industry. Some of you will probably ask me about buy now, pay later. That has been an ongoing dialogue to get right and it is very important we do get that right because it is quite complicated.





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If you are asking if there is a consultation on how we divvy up specific files between the regulators, I do not think that would be realistic, but we would hope to build a consensus to do it. We are not trying to do this in an all-powerful, secretive way. We will do it in a way that makes sense and makes it efficient and effective.

**Q630 Anthony Browne:** You mentioned earlier that you need a process of prioritisation, which is obviously right, and you have prioritised things like Solvency II. You mentioned the listings review and the wholesale markets review. This prioritisation could go on for years. How are you approaching it? How are you deciding what should be prioritised and what is not?

**John Glen:** There are a mixture of things here. There are things like the Kalifa review on fintechs, which is a world-leading industry. What more can we do to keep it world leading? We are in a good place on listings, but how can we be in a better place? We announced the prospectus regime yesterday and we are moving forward with some of those recommendations, looking at the capital raising for listed companies. That is another thing that we did. Some of these are things that we have done consequential of suggestions or my initiative, or the initiative of people around me or the Chancellor, in order to make positive changes for industry.

There is not a single master plan. There are Ministers, hopefully, taking responsibility for changes that can be done. We have done them where they can be done relatively quickly and effectively, but simultaneously we have had to design the architecture for the future as well. That is the future regulatory framework. My door is always open, Anthony, if you have more ideas of things we could be doing. Gwyneth will not thank me for more consultations, but the point is that, across a range of areas, we can.

I assume that the listings review that Jonathan Hill did over a few months would have had Treasury officials embedded and working with him as he went and spoke to industry, at lots of roundtables, and came forward with some recommendations. My team then looked at it and advised me. We looked at what we could do and we have now implemented most of those. Some of them were for the FCA to do, and it has been fantastic and moved very quickly on some of those things. That is an insight into the process.

**Q631 Anthony Browne:** One of the gripes of industry, which may or may not be valid, is that a lot of the regulation overlaps. You have mentioned the ringfencing review and the ringfencing regime, having a resolution regime, and does one do the other? Are there other areas where you think there might be underlaps and overlaps, where you have different bits of legislation, UK-derived or EU-derived, that are essentially trying to do the same thing?

**John Glen:** I am sure there are some. I cannot think of any immediately. The bottom line is that, case by case, we have to get it right. I am



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sensitive to the charge. The chairman of a bank came to me on Monday and said, "We have spent time replying to X number of consultations. It is costing us X amount". I recognise that we are imposing costs through that process, but we are also delivering significant benefits, and we make them as efficient and swift as we can.

In terms of the point of overlaps, I cannot tell you off the top of my head some specific things, but, as I said at the start, it is not an uncomplicated area.

**Alison Thewliss:** I have some questions around the growth and competitiveness secondary objective. John, the Committee received a letter from 37 civil society organisations, including a range of think tanks and consumer groups, arguing against a secondary growth and competitiveness objective.

**John Glen:** I think I have seen the same letter.

Q632 **Alison Thewliss:** As you will be aware, they are arguing that this could be putting UK regulators into dangerous competition with regulators globally to water down standards. First of all, how likely do you feel this is and what are you going to do to avoid that race to the bottom?

**John Glen:** I do not want that to happen, which is why it is not a primary objective. The reason why we did not have it as a primary objective is that that would have put that reality into play. We must have independent regulators that are thinking about high standards that give reassurance to us a place to invest and for firms. Growth and competitiveness are important. We do not operate in some of these parts of financial services in isolation. We are acting in an environment where, when I go to a group and I am asked, "Why should I invest in the UK?", bank CEOs in the UK want me to be able to demonstrate that we are on a competitive trajectory.

That is important, but that group expressed a range of concerns, which we will look at very carefully. They also talk to a number of concerns about consumer harms and, of course, that is a simultaneous part of the equation. It is a simultaneous equation and that is something we have to deal with as well. The key point is that, by making it a secondary objective for both the PRA and FCA, which I think they are reconciled to, we will avoid the concern expressed at the highest level in that letter.

Q633 **Alison Thewliss:** Vicky Saporta at the PRA told us that the wording of the growth and competitiveness objective is really the key to this. Now that the consultation has finished, how would you go about framing that?

**John Glen:** We have had quite a lot of conversations with the PRA and the FCA to try to get that right, and we have iterations of that language. We hope to do that in such a way that they are content because, at this point, it is important that we are all trying to be clear about what we are and what we are not trying to achieve. From the PRA's point of view, the concern would be that this does not undermine its reputation in the



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global fora that Sam, Vicky and others speak on with their colleagues, in that they are somehow being muted from being able to do what they need to do when it comes to stability matters.

We are in a good place. I do not have the exact wording of where we have got to at the moment, but I think there will be agreement from the PRA and the FCA when we get to legislation.

**Q634 Alison Thewliss:** I know you were not keen to put dates on things. How long do you think that is going to take?

**John Glen:** I cannot say for the legislation because I do not know for sure. I hope it will be in the next session, but whether it is May, June, July or later will depend on the business managers. That is when we will be putting the primary legislation down, and that is when we will make these things clearer.

**Q635 Alison Thewliss:** You talked earlier about the gradual shifting of things over time. With competitiveness, I suppose, if regulators become a bit laxer about the risks accumulating in the financial system, you might not see those consequences immediately, but you could go from having a bit of subsidence to a total sinkhole. Then of course people will come back to us in Parliament and ask, "Why did you not do anything about this?" How do you think that the regulators can weigh up those risks when it might not be evident for a while and we might end up in some kind of disaster that we have not foreseen because there is lots of small movement?

**John Glen:** There is always going to be a risk of that, and that is why you have the primary objectives, the secondary objectives, the operational objectives, the regulatory principles and these remit letters, which give us licence to intervene. We ultimately have the opportunity to legislate directly. That is an option that we really would not want to take, because we are trying to set up the framework for this to work and to keep the independence of regulators. I do not want to be in a situation where we do that.

If I look back at the last crisis, we dealt with things like mortgage prisoners. What is the fundamental reason for why we have mortgage prisoners? It is because we did not have what we have now with respect of the affordability assessment and the way that you cannot borrow money at 125% of the value of the property in the way that you did. There was a consensus—I was not around then; I do not think any of us were—through the 2000s about not intervening. It all seemed to work quite well. Those are concerns we have to deal with, and we deal with them by that framework and the range of operational objectives and accountabilities.

The PRA will be called to Parliament, and I am sure this Committee, or a version of it, will ask some very direct questions about things where there is a live issue. We live in a very open situation with respect to these regulators. I do not think anyone can say they can do things in isolation.



Industry and consumer groups, in equal measure, frankly, are pretty direct coming to me as well. We do not want to be complacent about it, but the combination of different tiers of objectives and accountabilities in the legal framework, as well as the principle of ongoing accountability, will avoid those risks accumulating and getting to a tipping point of concern.

**Q636 Alison Thewliss:** I have to hope you are right on that. A briefing from Positive Money has suggested that a growth and competitiveness objective could generate pressure to relax enforcement and policies, so as to attract dirty money from overseas. That is a problem that we are facing through economic crime. We have the Economic Crime Bill on Monday. What reassurance can you give us that that growth and competitiveness objective would not deepen connections between the City of London and criminal actors abroad? We already have this problem and it has grown up over many years.

**John Glen:** The growth and competitiveness objective is a broader measure about the health of the economy, and the City specifically. We will be reporting on that, as one of the Lord Hill recommendations. I talked through with officials what metrics would be appropriate—growth against whom, for example. We have to find ways of making these meaningful. I do not foresee a direct, or even indirect, relationship with that risk. We have spoken many times in the Chamber and in this Committee about the matters around economic crime, and I am very pleased we are accelerating those measures forward and, indeed, in the next session. I do not see that as a relevant concern to this particular growth and competitiveness objective.

**Q637 Alison Thewliss:** I do not know if you have read Oliver Bullough's *Moneyland*. I have started reading it. Some of the start of that is around how the City of London, at a point where it was not particularly competitive or attractive, has got sucked into this world, which has resulted in the situation we find ourselves in now with dirty money. I am just curious, in that, if the UK is less attractive, and there is a need to look more competitive and have more growth, you may end up exacerbating that problem. How do you guard against that when you have handed a lot of that over to regulators?

**John Glen:** We have to step back and say that the City of London is a significant part of our economy. Whether we agree with that in principle or not, that is the reality of where we have been for some years. Loads of people have said we need to reorientate, and I would argue that the Government are doing things around incentives for investment, freeports, etc, to deal with the levelling-up agenda. I do not want to be distracted.

**Alison Thewliss:** You could go somewhere else on that altogether.

**John Glen:** What I am saying is that financial services are important to this economy. It has a set of behaviours, risks and openness, which is a good thing, which creates opportunities for people to take advantage of.



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We have to make sure that we are alive to those and that we have learned lessons from what has happened in the past, but we do not want to be in a situation where we stifle innovation or stop the sorts of interactions that are important to the growth of financial services. I am very pleased that we have deep pools of capital and that people come to London. That has been an enduring strength despite the last six years of relative turbulence and uncertainty. I see it as my responsibility to create a framework that allows financial services and the City to endure.

It means that, if you compare us to other countries and other continental European capitals, we will not have the same profile of risks with respect to dirty money because they do not have financial services at the same level. It is a consequence of the nature of an industry that attracts actors from a wide geography. That is why the measures in the Economic Crime Bill are so important. We have to tackle some of those risks that fundamentally derive from the need to have more transparency.

**Q638 Alison Thewliss:** Since you mentioned it, will there be any re-looking at freeports given the lax regulation, comparatively to them, in light of the Economic Crime Bill?

**John Glen:** I was making the point about freeports just to illustrate the imperative around levelling up and moving the centricity away from financial services. The specifics of the timeline for those matters is outside my responsibility. You would need to address those to the Exchequer Secretary, from memory.

**Alison Thewliss:** I sure will. Thank you.

**Guy Opperman:** On the competitiveness point, I did not have a huge amount of time to prepare, but I read a lot of the Q&A. At Q488, and various other ones, you made the point that people are getting left behind, and how, quite rightly, this Committee looks after those who are not getting access to financial services. One of the serious points about any competition review is that there should be organisations that can step in at the bottom end to assist.

Both John and I are enthusiastic supporters of credit unions, but having set up a community bank, and having visited, in Scotland, some of the amazing organisations that are doing this, making it easier for such organisations to innovate and then get in, whether it is in fintech, with Chip and other ones, which are doing great work, or those community banks that are looking after such people, that is an example where freeing up competition, and the consumer objective, which we are all interested in, get the outcome that we are all interested in.

**Chair:** Thanks, Guy. We are going to hear more from you now because Emma is going to look at financial inclusion and other matters that are in your area.

**Q639 Emma Hardy:** I have mentioned before that we heard really powerful testimony from Martin Coppack, from Fair By Design, and his general



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point, which I am sure everyone agrees with, was that everyone should have access to financial products and services that meet their needs over the course of their lifetime. That is what his campaign is, and I am sure we all think that too. One of the problems he highlighted with us was that, when he was advocating for consumers, he felt he was being bounced between the FCA, the CMA and the Treasury, and that he did not feel anybody was prepared to take responsibility for addressing the issues he was raising around the poverty premium.

Do you think the FCA should be empowered to co-ordinate this work, or do you think the Treasury should be in the lead on this work?

**John Glen:** I am sure Guy will come in in a moment. The Treasury is responsible for financial inclusion policy. Last year, in the Financial Services Act, we accepted the amendment with respect to getting the FCA to consult on the duty of care. They have come forward with a consumer duty, which I think most consumer organisations and, indeed, financial services firms are content with. You have focused on matters such as the poverty premium, with insurance, access to financial services, utilities—those sorts of issues. Guy and I have chaired the Financial Inclusion Policy Forum for four years, and an earlier iteration of that actually got basic bank accounts going. I think Gwyneth was involved in that as an official. Now 97% of UK adults have a bank account.

In that Financial Inclusion Policy Forum, we work with Fair4All Finance, which does the dormant assets distribution, and with industry. We look at areas with the insurance industry. What is the bar to actually getting effective products for people from the poorest communities? We have made changes to registered social landlords and what they can promote. Guy mentioned credit unions. I hope to be able to bring forward legislation to expand the range of services that credit unions can offer in this next piece of legislation.

Q640 **Emma Hardy:** Martin Coppack did highlight some of the work that the Government are doing, and it is great that you have mentioned it because it shows that the Government can take action when it comes to financial inclusion. The point was that he felt bounced around all the time between the FCA, the CMA and the Treasury. He gave some really good testimony, which I will not read out now, but it is worth reading.

**John Glen:** I have read some of it.

**Emma Hardy:** He would go to one organisation, which would say, "That is social policy, so it not for us at the FCA". He goes into Government and the Treasury says, "That is not our remit. Go somewhere else". That was the point that he was making. He also talked about the difference, when it came to resourcing, between the number of people. He said, "The balance between industry and consumer representation is absolutely woeful. When I started at the FSA/FCA, I was responsible for consumer engagement and the liaison with civil society. I cannot get over to you



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how small the resource is and how little impact, in comparison, within financial regulation, the consumer voice has". This was the point he was making.

**John Glen:** The FCA has a consumer panel, and how it resources that will be a matter that you can ask Nikhil and Sheldon about.

**Emma Hardy:** We have been.

**John Glen:** You asked Sheldon about it when he came to you. The primary objective of banks and financial institutions is to deliver a service for the consumer, and I want them to be able to deliver that efficiently to as wide a number of people as possible. There might be specific instances where cohorts of consumers cannot access it and there is a regulatory issue, or there is an issue where information flows cannot get there, or there is a market failure. I think we have given £96 million to Fair4All Finance in recent years to distribute these dormant assets. We work with credit unions, and Guy's community bank and others across the country, to find interventions that make up that gap.

In things like access to cash, we appointed the Cash Action Group to look at how we deal with that. While 96% of the UK population live within two kilometres of a free-to-use cashpoint, there are still examples. That is why they have moved forward, as an industry, with a solution that says you can apply for an intervention if you have a community at risk.

Q641 **Emma Hardy:** When Sheldon was giving evidence to us, he said, "We try to go as far to the edge of our perimeter as we can in order to help, but some elements of this will require a coalition of a lot of people to tackle some of the issues". From what he was saying to us, it feels a bit like they do not have all the powers they need to tackle this on their own.

**John Glen:** We have a mechanism with the FCA on an annual basis, and, indeed, I had that conversation a few months ago with Nikhil, the CEO of the FCA, to discuss perimeter extension. There is always a mechanism if there is a clear rationale for that. The bottom line, in my view, is that, often, the same group of people have similar issues, and there is not a single intervention. You will know from your case work, as I know in mine, that there is a range of issues there.

I do not think the better consumer outcomes are necessarily going to be achieved by a better demarcation of responsibility between the Treasury or the FCA. We have specific issues to deal with, and they will need bespoke interventions from a range of actors.

Q642 **Emma Hardy:** I am going to bring in Guy in just a second because I know you have come especially. The main thing that Martin and other civil society groups were calling for was for the FCA to have this "have regard" for financial inclusion. When I questioned the FCA on it, it said, "That is not a decision we can make. We do not decide what our 'have regards' are. It is a decision given by the Treasury".



**John Glen:** I can answer you very straight on that. My view is that there are a number of things around those regulatory principles, the remit, the operational objectives etc, at the moment that exist. I will look very carefully at that letter and what they are saying, and what additionality it would really give, but I am very sensitive to loading up another “have regard” where we can say, collectively, as legislators, we have sorted it out, when in fact, in reality, the complexity of delivering solutions for some of these particular problems, access to insurance for the most vulnerable who do not have a certain credit history, or a disinclination to use those sorts of financial services products, needs more than simply a few words on the page for a regulator.

**Emma Hardy:** But it would be a start and a way of holding them to account. I will bring in Guy.

**Guy Opperman:** I think you have actually made the case for more than you think you have, because your argument is that this is a multidisciplinary, complex issue that one organisation should grasp. With respect, it is a multi-departmental, cross-Government problem, and to be fair Theresa’s Government attempted to address that. That is why you have two Ministers looking after financial inclusion, and why we have done, I think, nine separate sessions with the Financial Inclusion Policy Forum. I will not go through all of the product of that, but during that we have looked at everything from Fair4All, dormant assets, the Money and Pensions Service, access to cash, credit union pilots, access to debt advice. I could go on in great detail.

I will not read them all out, but there are a whole host of organisations similar to the one that Martin put forward but just as worthy, many of which you will be aware of, from Toynbee Hall to Fair4All Finance, to the Money Advice Trust. There are many others—the Money and Mental Health Policy Institute. The point is that this covers a whole host of different bits of Government. You cannot say one bit of Government can fix this and solve this.

Q643 **Emma Hardy:** This is the problem that Martin mentioned and why he ends up getting bounced around, because when something is everyone’s responsibility it can often be nobody’s responsibility.

**Guy Opperman:** I would genuinely disagree. I think that was a legitimate criticism three, four or five years ago, with no disrespect to him. The reason why I disagree very strongly is that the Financial Inclusion Policy Forum specifically tries to do the one thing he is talking about, which is bring together the great and the good. There are only two Government Ministers. There are about 15 other very important and very worthy people in this space.

Q644 **Emma Hardy:** Is that approach effective in reducing the number of people in the UK experiencing the poverty premium? It is not just about insurance and bank accounts.

**Guy Opperman:** Yes, 110%.





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Q645 **Emma Hardy:** They are coming to us and giving evidence to us, talking about financial inclusion. We all know the problems. As we mentioned, we have all heard it from our own casework. What is the solution going to look like, if you are not going to go down the “have regard” route, which I would encourage you to?

**John Glen:** We are not necessarily saying that. We will look at it carefully. The point that Guy is making, and I would completely echo, is that it needs multiple Departments of Government. It needs different parts of civil society, and, indeed, the market and regulators, to look at problems holistically. I know that probably sounds waffly and evasive, but it is not. It is just the reality of how difficult these things are to fix.

Q646 **Emma Hardy:** Who is leading on it, then?

**John Glen:** Leading on what specifically?

Q647 **Emma Hardy:** You talked about the Financial Inclusion Policy Forum. As parliamentarians, who are we holding to account in taking action on this?

**John Glen:** You have both of us here. We did the breathing space scheme together.

**Emma Hardy:** Yes, that was good.

**John Glen:** We still have the statutory debt repayment plan to do as a product for that. If you ask specific questions about different parts of that, we are having conversations with credit unions and asking them, when those larger credit unions exist, what more services would they like and what sorts of products and rules they would like to deliver. That will deliver some of this. It depends on precisely what you are talking about.

We had a Westminster Hall debate, which I think you were involved in, when we were talking about the debt advice and how that sector works. It depends what we are doing. This is a mechanism, with two Ministers from different Departments working together. I am not saying we have this all sorted, but I am saying, if we do exactly what they are asking for, we need to be very clear that it is going to add something meaningful beyond all the secondary operational objectives, primary objectives, remit letters, principles, etc, that exist already, because they do.

Just last year, through two consultations, we got the FCA to bring forward a consumer duty, which, in its first iteration, was not universally well respected. I think we have now got into a good place with that.

**Guy Opperman:** The point is being raised in respect of a “have regard”, but surely you should look at the primary objective. One of the FCA’s three primary objectives is consumer duty, and all the matters of financial inclusion should come within consumer duty. The simple point is that the FCA review of consumer duty should take on board, and there is a legitimate criticism if it does not, the issues you are raising as part of consumer duty. It is a fundamental of what they are doing—of looking



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after all consumers. If you feel that they are not doing that, their primary objective, which is much more important than a “have regard”, is not being fulfilled.

The second bit I want to add, and I know time is short, is that there is a legitimate point that this is a work in progress. No one disputes that, but I am exceptionally proud. If you go back through, if you are sad enough, as I did yesterday in preparation for this, the minutes of what we have achieved in respect of the Financial Inclusion Policy Forum dating over four years, working with all these partners, I can give you 10 different interventions that have made a massive change, ranging from high-cost credit—

**Emma Hardy:** You have just made the argument that, if you are capable of doing what you have done so far, you are capable of doing even more in the future. That is the point you have just made.

**Guy Opperman:** I totally agree.

**Emma Hardy:** I am going to pivot really quickly to the pensions debate, which we had yesterday. I am losing track of which day it was.

**Guy Opperman:** It was yesterday morning, very early, given that we finished at 1 am.

**Emma Hardy:** I just want to quiz you a little bit more on that one, because we were talking about the calls being made for an evaluation trial and about the stronger nudge.

**Guy Opperman:** Stronger nudge and auto-enrolment.

Q648 **Emma Hardy:** We talked about what stronger nudge was and what the FCA was talking about in terms of auto-enrolment. We were having that conversation, and then time ran away before you were able to conclude your comments. The Work and Pensions Committee and various organisations are calling for a trial around an auto-appointment booking approach for improving Pension Wise take-up. Are you going to ask the Money and Pensions Service—MaPS—to implement such a trial, working with the FCA and the Pensions Regulator?

**Guy Opperman:** The answer to that is no. It is complicated, as always, and these things are, because there are two different things. John is responsible for the FCA, which is then looking at its particular type of pensions, and I am responsible for the DWP element. We do not agree with that policy. We think the stronger nudge, which takes the client through a detailed process, whereby you take them to Pension Wise at the time that they are looking to access their pension and actually engage with them, is a much better way forward.

There is also other things like MoneyHelper, which has double the take-up of Pension Wise. Again, there is more. Harriett, for example, was one of the junior Ministers who set up the Money and Pensions Service many moons ago, in the Treasury, and it has worked its way through. This is a



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young organisation that is only three and a half years old, and it is beginning to find its feet and do the things that we are trying to do. Is there more we need to do on this? Yes, but the stronger nudge, which starts in 91 days, on 1 June, is without a doubt, in my view, the right way forward.

Q649 **Emma Hardy:** John, on that, and alluding to our previous conversation about Departments working together, the FCA wrote to the Chair of this Committee on 16 February. They were questioned about what this stronger nudge looked like; they mentioned it in evidence to us and we wrote to them with a list of questions. They said they were still in the phase of designing some kind of scheme to look at this. Correct me if I am wrong, but it feels like you have the DWP ahead with a trial, ready to go, I think Guy said, and the FCA in a design phase of a trial, but both are attempting to get the same objective.

**Guy Opperman:** I can answer that. The practical reality is that I have absolutely shotgunned this as much as I could, partly because it derives from primary legislation—the Pension Schemes Act of last year. Then I had to do secondary legislation, which I did, and there is a whole bunch of leading. You have to do it through a statutory process. You would love to think that all Government moves in total union and they all get their acts at exactly the same time.

You are right that the DWP is ahead of the FCA/Treasury in this space. To a certain extent, and this goes back to the debate we had yesterday, the FCA and others are looking at the stronger nudge trial, because it starts in literally 91 days, and asking, “Is that the intervention that makes the difference?” They are definitely behind us, but that does not mean to say they are not doing their own thing.

Q650 **Emma Hardy:** Is the FCA doing a separate scheme and trial to the one the DWP is doing?

**Guy Opperman:** You will have to ask the FCA precisely where it is. I do not believe it is at the moment, but that does not mean to say it will not do it in the future. I hate to say it, but they are two slightly different systems with two different clients.

**John Glen:** There are different structures to our pension systems, so there are two different regulatory environments, with different responsibilities. In terms of where we are relative to them, it is an FCA matter, but I can certainly find out for you and write to you.

**Emma Hardy:** That would be really helpful. Just to summarise what you were saying, John, in terms of our previous conversation, you are going to have a look at this “have regards”.

**John Glen:** Of course, absolutely. It is an important matter. I am just trying to convey what my receiving spirit is, if you like, to it.

Q651 **Emma Hardy:** Will you write back to the Committee when you have



done your analysis into it?

**John Glen:** Yes. I think it is probably tied up with the legislation. I think it may be better for me to do it in the context of what I do with the legislation when we get to that point. It is something that we need to look at carefully, like all the representations we get. We need to do it in the context of what we actually have and see what that additional thing would mean, particularly in the light of consumer duty, which has only just got to the end of its journey through the FCA.

**Emma Hardy:** I look forward to continuing this conversation in future committees. Thank you both.

Q652 **Dame Angela Eagle:** Earlier we were talking about the City. Because we are a very large financial sector and a very open economy, we have become a safe haven for stolen money. Minister, are you convinced that the legislation that is coming before us next Monday will actually close those loopholes or is there more we need to do to deal with this issue?

**John Glen:** The legislation we will bring forward on Monday is obviously emergency legislation. It has three elements. The first bit is to deal with some of the legal problems with unexplained wealth orders.

**Dame Angela Eagle:** Because they have been very held up by challenge in the court.

**John Glen:** Yes, that is right. I think we have had four of them, and two have been held up. I think it was the Defence Secretary himself, when he was Security Minister and first announced them, who announced them with one that had just happened. It is has been very difficult since. There are absolutely challenges with that, which we are trying to address.

The second area brings forward progress on the register of overseas entities and beneficial ownership of property in the UK. As I think we said, certainly on the Floor of the House, and I spoke to you afterwards, as well as in this Committee, this is something that, when Damian Hinds, the Security Minister, and I came before you in November, we were adamant needed to happen. I am glad that is happening. That will then be followed up with more in the next session.

The third element is changes to the basis by which the Office of Financial Sanctions Implementation, which is an entity that sits in the Treasury, can intervene. There was a legitimate ambiguity over the civil test around having suspicion of there being a breach. We removed that and made some other changes, one of them being that I as a Minister will not have to do reviews, which I personally did do, with lawyers and goodness knows what was the case in the past. That is something that others can now do.

That is a start, but there will be a lot more that needs to happen that we will set out in due course. I recognise the time imperative and, of course, the pressure to do this is significant. We are trying to take these



sanctions measures more broadly in alignment with our allies in the US and in the EU, but in terms of the legislative interventions there are serious drafting and consultation issues.

The wider Companies House reform, which Alison has also shown a lot of interest in and has asked me about in the past, will be the most significant change to Companies House legislation in well over a century. What we are trying to do there, although it is a BEIS lead, is to be in a situation where we can maintain the ease of setting up a business but not with some of the shortcomings that have been highlighted so plainly in the House by you and others.

**Q653 Dame Angela Eagle:** Do you feel that, once this Bill comes before the House—and thank goodness that it is and, hopefully, we can get it on the statute book on Monday night—you will go straight back to the office and have a look at some iterations for doing more, and that there will be an ongoing programme? Clearly, the need for an effective, tough sanctions regime in London is established but now very urgent indeed.

**John Glen:** I can say, as the Prime Minister said in Poland yesterday, that we will look to intensify these measures on an ongoing basis. Monday is an immediate legislative intervention that deals with those three elements, but there will be more to come subsequently. I am familiar with some of the work that has gone on with the banks and SWIFT, which is a Brussels-based firm under EU regulation. We work very closely with EU members and the US to get alignment on that and to make sure that it is effective. The intervention with the central bank is something that the Governor of the Bank of England worked very closely on with the Chancellor, again getting alignment with the US in particular and with the EU.

All of these things are moving all the time, as you would expect, and sometimes there is uncertainty because you mention a figure of X number of entities or individuals, but then, of course, you have to go through the process of getting to a point where you can name those individuals through different legal processes. As we discussed with the unexplained wealth orders, the legal elements are quite important, given that these properly typically have many lawyers, as is their right.

**Q654 Dame Angela Eagle:** There were suggestions in the House of Commons yesterday during the debate on sanctions that perhaps parliamentary privilege could be used, at least for now, to get round some of the difficulties of naming particular individuals whom we all know, some of whom are being sanctioned in the European Union, some of whom are based here and have significant assets here that do not appear on our list at the moment. Are you, as a Government, willing to think about how to do that quickly and maybe come back to it subsequently for something that would be more sustainable, because of the crisis we are in now?

**John Glen:** Dame Angela, you are asking me to intrude into areas that I do not lead on. I could give you my personal view, but I am conscious



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that I am part of the Government, and these conversations are ongoing. Forgive me, but I cannot really comment on that, because these are matters for the House and for colleagues in Government beyond me.

**Dame Angela Eagle:** There has been some frustration about enforcement in and around the economic crime area, on which I am sure you will have read our report and will be now, as we are sat here, preparing the Government response to it.

**John Glen:** Yes, that is all I think about.

Q655 **Dame Angela Eagle:** Enforcement has been a weakness. Is some of this about the fact that people who have defrauded the system and laundered their money here tend to be rather well off, and can use lawyers and various other services to make it much riskier for the authorities to pursue them? Are there some issues there that we need to think about with respect to the Bill on Monday and going forward?

**John Glen:** With respect to the area that I am responsible for, which is the Office of Financial Sanctions Implementation, we are making those changes on Monday directly to assist with the effectiveness of that implementation exercise. Some of the things that you are talking about there relate to a wider set of interventions with respect to the Home Office and other crime agencies. I work with the Security Minister and have conversations with him on some of the fraud issues that we have talked about in this Committee previously. On this particular matter of where there are vulnerabilities and process challenges with respect to dealing with some of these individuals, I am not well placed to give you a meaningful answer. I would imagine that your instincts are right but, in terms of the detail of it, I am not sure I can help.

Q656 **Dame Angela Eagle:** Perhaps, Chair, this illustrates one of the points we made in our report on economic crime, which is that there are a bewildering number of organisations that have some but not the whole authority in dealing with this area, and that, if there is lots of activity, it tends not to lead to a huge output. Are you thinking in Government about how this bewildering array of agencies that are responsible for enforcement might be put together in some way that would make it more effective?

**John Glen:** We do have a strategic conversation with all those bodies—the NECC, the NCA, the Serious Fraud Office, the Home Office and the Treasury—on a regular basis. I absolutely recognise the frustration you are talking about. As somebody who has this particular area of responsibility for economic crime, I am reliant on other Departments—for example the Online Safety Bill—to make the interventions that we need. It looks like we are heading in the right direction with that.

If you think about what we are trying to do, we are dealing with individuals and problems that are quite complicated in terms of the different legislation that is involved. If somebody has an asset in London that is owned by a company registered in another jurisdiction, as a small



example of the complexity, getting to grips with these individuals and dealing with it is not something that one single Department can do.

It goes back to, in principle, Emma's question as well. We all want to find an immediate individual accountable, but the mechanics of delivering it will need collaboration, because the specialist skills do not sit within Whitehall or within one agency. The imperative is around better collaboration. The Prime Minister has announced a new cell in the NCA that will deal with kleptocrats. We are iterating all the time, but there is good co-operation, which I have seen first-hand in numerous meetings over the last week.

**Q657 Dame Angela Eagle:** If a machine, be it the Government, is siloed and has cogs that work together, you get an output, but I am afraid that, quite often, as far as we can tell, the cogs are all working in different directions or somebody says, "It is not my budget" and nobody is primarily responsible, so we have a very puny output. We are getting very powerful statements and a puny output, which is what is causing the problem.

**Guy Opperman:** No disrespect, but that is what the law is. It is not my portfolio and, like John, I am part of collective responsibility, but having prosecuted, on behalf of the Labour Government, a variety of very nasty characters for the DTI in criminal courts for financial crime, and having pursued them in civil courts for financial compensation and penalties, we all know that there are two different legal systems, for example. There is a civil system and a criminal system. You start off by deciding which avenue you are going to go down. There are a whole host of different prosecutors, whether it is serious fraud or the Home Office doing a bog standard prosecution through the Crown Prosecution Service and through our normal police. That has always been the case, so no disrespect, but nothing has changed since when I wore a wig and repeatedly prosecuted on behalf of the Labour Government.

**Q658 Dame Angela Eagle:** I am not trying to make a party political point. What I am trying to say is that there is a great deal of frustration that enforcement seems to be—

**Guy Opperman:** 'Twas ever thus.

**Q659 Dame Angela Eagle:** Levels of scamming and financial crime have got higher. We now have this national security situation going on with kleptocratic money in London. We are all very grateful that we have this Bill to be dealing with on Monday. I suppose what I am trying to ask is whether there is something else we should be doing that would—

**Guy Opperman:** Yes. John has already alluded to it. For example, the Online Harms Bill will make a massive difference. It is to be drafted and presented, but the scamming that is taking place through Google and others has to stop—no question.



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**John Glen:** If we are talking about the issue of challenges with respect to the sanctions implementation or the broader economic crime agenda, you are asking the right question around whether there can be better collaboration. The Government have to have the humility to keep challenging ourselves about how that is optimised. As for the OPBAS thing that we have, with these 25 regulators of different entities, some of them perform better than others, but the point is that you would not expect to have one single body responsible for regulating how estate agents deal with anti-money laundering risk. They need a different set of interlocutors than the Solicitors Regulation Authority, which does it separately.

You need a common standard that you can be assured exists, and that is never going to be that simple, but it is fair enough to ask that question. Progress is being made. This is a significant moment of working together on some of these interventions legislatively, and perhaps we can go further than that in the months ahead.

**Dame Angela Eagle:** I certainly hope so. Thank you very much.

**Chair:** Guy, when you referred to wearing a wig, that was in a legal context, I believe.

**Guy Opperman:** It was in a legal context. What I do on weekends is a separate matter that I just do not want to talk about.

Q660 **Chair:** John, on the register of beneficial interests and the Bill that is going through on Monday on property etc, one of the challenges here, as we have touched on, is going to be Companies House and how quickly it can use the tools that it is going to be provided with. I know that this is a BEIS area rather than Treasury, but from where you sit—we have been talking about cross-Government working—

**John Glen:** It does not mean to say I can do everything.

Q661 **Chair:** No, it does not, but we value your opinion on it. How confident are you that they are going to be able to use these tools in a timely fashion? What do you and BEIS think “timely” means? How quickly are they going to be out there finding these people with this property and doing something about it?

**John Glen:** We have been working with BEIS and, essentially, Treasury granted it, through the last spending review, extra money. I think it was just over £63 million. As I understand it, part of it is the mechanics of reforming the IT infrastructure, and part of it is the legislation required to do the searching of it. There are two distinct categories. That is probably a gross simplification and I am sorry to my colleagues in BEIS if it is. This legislation accelerates that second part of it, which means that you can get to grips with a more straightforward—

**Chair:** That is fine. You may not have a feel—





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**John Glen:** I do not want to waffle on about something that I am not so qualified to talk about.

**Guy Opperman:** The bottom line is that you are always subject to the Government Legal Department and being able to take things to court, which is a process, and these people have rights just as much as anybody does. That is almost the thing that will be the slowest, I suspect.

Q662 **Chair:** You may not want to be drawn on this, but there has been much criticism in Parliament recently about lawyers standing up for kleptocrats etc. Do you have a view on that? Do you take the view that everybody has a right to be defended?

**Guy Opperman:** One of my last clients was Mr Ed Balls. I was happy to represent him as the Secretary of State for Children, Schools and Families, much as I was happy to represent anybody on what is called the cab rank rule in criminal matters. You do not have a choice as to which commercial clients you take though.<sup>1</sup>

Q663 **Chair:** These folks go for expensive lawyers who charge a lot of money in order to do lots of clever things to do with unexplained wealth orders that snarl up the system, slow things down and so on. Do you feel that that is okay?

**Guy Opperman:** Everyone is entitled to representation.

**John Glen:** We cannot be in a situation where, because of enormous moral pressure—which, of course, there is—we suspend all our norms of a cherished free society.

**Guy Opperman:** The moment you go down that route, you are going into Putin's world.

Q664 **Chair:** I merely posed the question because it is being asked increasingly on the Floor of the House.

**John Glen:** I have had colleagues from the House of Commons, who will remain nameless, who have said that we should liquidate these assets and use them as a fund for Ukraine. Even when we have used freezing orders previously with respect to other countries—Libya comes to mind—that did not mean that we would then, through that process, take ownership of those assets and appropriate them. That is not what we do.

**Guy Opperman:** We have a court system—trust me—that would overturn if Government behaved in an unconscionable way, and quite right too.

**Chair:** You have been very clear. Thank you.

**Guy Opperman:** This is in neither of our portfolios.

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<sup>1</sup> Note by witness: The witness subsequently clarified that he meant to say "You do have a choice as to which commercial clients you take", in contrast to the cab rank rule which applies for criminal matters.



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Q665 **Kevin Hollinrake:** John, why have we not sanctioned all the major Russian banks? Why are ones like VTB, Gazprombank and Alfa-Bank not on the list?

**John Glen:** We have worked pretty carefully to get a consensus on SWIFT. When you see it on the SWIFT thing, we are aligned on the seven banks that were removed there. Of course, we have the asset freezes on the banks, so there will be a slightly different take in terms of what the effect of this is. If you freeze assets, you effectively freeze an entity. In terms of the differences across individual banks, I do not think that I can answer that here.

Q666 **Kevin Hollinrake:** Is it possible to write to us to tell us that?

**John Glen:** Yes.

Q667 **Kevin Hollinrake:** The sanctions have gone much further than many people thought they would. I am not being negative about what you have done, but they are the second, third and fourth largest banks in Russia.

**John Glen:** We have gone further than the EU, as I understand it, with respect to asset freezes.

Q668 **Kevin Hollinrake:** It makes sense to go as far as we can, not just further than others. I am just interested in why we have not done that.

**John Glen:** The answer is something around the asset freezes and SWIFT working together, and what the effect of this is. In terms of the individual banks, those will be decisions made primarily by the Prime Minister and the Foreign Office.

Q669 **Chair:** Just on that point, when it comes to sanctions that are, essentially, financial, the Treasury must have quite a strong locus in that.

**John Glen:** Of course we do, but ultimately everything rests with the Prime Minister.

**Chair:** It is signed off by Number 10 etc.

**John Glen:** The issue with these matters is that, to be effective, we need to have maximum alignment. For example, I saw some commentary yesterday around run-off regimes, where some colleagues were saying that this is a loophole. It is not. It is a general licence in line with OFAC best practice in the US, essentially, to do this in an orderly way and to minimise the detriment.

Q670 **Kevin Hollinrake:** That makes perfect sense. We are going to be doing a short inquiry into sanctions, and it would be good to know why we have not done those and to have some background to understand why that has not happened.

**John Glen:** I will find what I can and share it with the Committee, as I always do.

Q671 **Rushanara Ali:** I have a few follow-ups and then I am going to go on to



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international trade and safe openness. On sanctions, the Prime Minister, in an answer to me last week, said that there is an intention to sanction state-owned banks Sberbank and Gazprombank, and the non-state one. I think that that was in reference to Alfa-Bank. It was a rather surprisingly clear and helpful answer; he said yes. Do you have much more on that?

**John Glen:** No, I do not.

**Rushanara Ali:** Could you write to us about that?

**John Glen:** Rushanara, these conversations are literally live, going on now.

Q672 **Rushanara Ali:** I am not asking you to answer the question right now, with respect. What I said was, picking up on Kevin's point, for your information, that the Prime Minister said in the Chamber that there was an intention to sanction those banks.

**John Glen:** I know; I saw it. I saw what he said to you. I was there.

**Rushanara Ali:** What would be helpful is to know whatever you are able to provide in writing to us where that has got to.

**John Glen:** Yes, I just said that.

**Rushanara Ali:** Appreciating the points that have been made, he had said there was an intention to sanction. I was not trying to give you a difficult—

**John Glen:** I shall send you the fullest answer I can on all the elements you have raised with me.

Q673 **Rushanara Ali:** Thank you. I appreciate that. Guy, while we have you here, I had a couple of—

**John Glen:** You are going to ask me about something completely off the scope now.

**Rushanara Ali:** Sorry?

**John Glen:** You will ask us something completely off the scope.

**Rushanara Ali:** It was not off the scope.

**John Glen:** Okay.

**Guy Opperman:** Crack on.

**John Glen:** I am just pulling your leg.

**Chair:** We are about to find out.

**Rushanara Ali:** You can read my mind. You are that clever.

**John Glen:** No, I am certainly not.

Q674 **Rushanara Ali:** Guy, there are some issues around market failures in



the insurance sector. With Brexit, there have been lots of concerns about what is insurable and what sort of insurance cover people get, whether it is car insurance, holiday insurance or health insurance and so on. I just wondered if your Department has done any work around market failures recently and what the Government could do to try to address the gaps where the insurance market assesses risks in particular ways. For instance, if you have a disability or pre-existing conditions—

**Guy Opperman:** I can cut you short. The answer is no, not that I am aware of, partly because the assessment of insurance is not something that my Department would do. If you are raising whether that is linked to Solvency II, I have long advocated that the reforms to Solvency II are a really good thing, and that does impact upon DWP to a degree, but no, in terms of whether we have done inquiries on car insurance or other things.

**Rushanara Ali:** Would that be for you, then, John?

**John Glen:** That is right.

Q675 **Rushanara Ali:** Apologies. For you, then, is there anything on market failures?

**John Glen:** What Guy and I have done in the Financial Inclusion Policy Forum is to look at where there are gaps in provision. We looked, with the industry, at how to address that. Is there a way of getting social landlords to put insurance—for example, house and contents insurance—into the rent? Those are the sorts of things that we have looked at.

In terms of the poverty premium that exists across a range of everyday services, part of it is often driven by data and access to data. I am not aware of specific incidents. The only thing that I can tell you on insurance—and the insurance industry does fall under me—is around what happened recently with respect to a renewal not being able to be done at a higher price than the new customer offer, which has reoriented quite a lot, because people just keeping rolling over their existing contract. This is an area where I would be up for looking at it, because I do think there probably are solutions.

**Rushanara Ali:** It is coming up quite a lot, certainly in terms of my casework, because there have been issues around pre-existing health conditions, where it is quite difficult, for instance, with travel. It is much more expensive to get insurance for older people. There is a range of groups that find themselves in complicated circumstances. The other thing I have picked up—

**Guy Opperman:** Just on that, can I just say that—

Q676 **Rushanara Ali:** Sorry, let me finish this point, which is to do with tower blocks and building insurance, where some leaseholders have had trouble getting insurance. I just feel that there may be a case for looking at this in the round around where the gaps are and what the role of the market



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as well as Government can be.

**John Glen:** The Secretary of State for LUHC wrote to the FCA asking whether there was an industry failure with respect to that provision on the insurance, and the FCA is looking into that at the moment. That is something specific.

I want to show an openness—and sincerely—to look at specifics around particularly the poorest people and exclusion. I am very happy to look at what you have to say on that and to see if I can find a way of bringing it forward in the Financial Inclusion Forum.

**Guy Opperman:** I know you had the ABI, and Charlotte Clark, who used to be my lead civil servant, give evidence to you. On low-income access to insurance, as of December 2021, the two of us did the Financial Inclusion Policy Forum, where there is a subgroup specifically looking at low-income policy insurance for houses and contents, particularly because access to that is quite clearly a problem, a bit like basic bank accounts were brought in to deal with the problem in respect of access to a bank account. It is a work in progress and it would not be right to say it has been fixed, but there is already work being done. My strong advice is to write to the ABI and get the update from there.

**John Glen:** The industry did something on the exclusion of older people. I seem to remember they had something like 700,000 inquiries as a consequence of something they set up for people who had been excluded to get travel insurance if they are over 75.

**Guy Opperman:** The other one is on housing associations. We have changed the rules, so that housing associations can assist in terms of referring for insurance.

Q677 **Rushanara Ali:** I want to put it on your agenda as Ministers, because you will find that there are still gaps, especially for those with pre-existing health conditions and so on, where insurance tends to be much higher. The area around market failures is one for action in Government as well as elsewhere, so I just wanted you to take that away and consider what else could be done.

**John Glen:** I will do.

Q678 **Rushanara Ali:** On Solvency II and the question that the Chair was asking about risk margins and matching adjustment, do you see any trade-offs or tensions? We have heard lots of enthusiasm about reform, and we can see why. There are issues around where there could be opportunities for investment if the reforms are done appropriately. Do you see any risks to pensioners? Are you going to mitigate it, if there are?

**Guy Opperman:** Shall I go first? The answer is that, clearly, the devil is in the detail. One has to accept that.



**Rushanara Ali:** He is going to get that right, is he not?

**Guy Opperman:** Yes, but I have been calling for this for some particular time. It will help pensioners in a number of different ways. First, I cannot stress enough that it is bizarre that we have a system that is more onerous than perfectly legitimate competitors. Secondly, we are in a situation where we have massive capital without it being fundamentally used or being required to cover the risks that are out there. That seems to me an utterly illogical use of capital.

The final bit is that, if I have an occupational pension and I want to get an insurance buyout at the end of the day, if you have a relaxation of Solvency II, it will be easier to get to a buyout situation because, at the moment, it is exceptionally hard. I have a bunch of people between 90% PPF being bailed out by the state, and 110% being bought out by an insurance company, and there are a load of different pension schemes in the middle that are struggling along. If that 110% comes down even by one percentage point, life gets a lot easier for people to get to buyout, which is better for the individual pensioner, without a shadow of a doubt.

**John Glen:** The regime that we have is not optimised for our insurance industry. I do not see this as a deregulatory thing. I see this as right-sizing.

Q679 **Rushanara Ali:** Do you not see a tension in trying to release money for investment and anything that could happen in terms of safeguarding the interests of pensioners?

**John Glen:** No.

Q680 **Rushanara Ali:** We should be confident that you are going to get the balance right.

**John Glen:** Yes.

**Guy Opperman:** Yes, because other countries have done it that are perfectly reputable. More particularly, the investment that you are talking about in alternative assets—asset-backed investment—is a perfectly legitimate investment.

**John Glen:** Given the profile of obligations that they have in terms of life insurance and pay-outs, it is a question of what you can properly match against that. I want us to move to a world where you can invest in other things. That is entirely reasonable. The insurance companies want to do it. We are talking about infrastructure.

Q681 **Rushanara Ali:** I am all for that, but the question was about getting the balance right and the protection of pensioners.

**Guy Opperman:** Look at the Canadian pensions superfunds, or the Australian superfunds. These are massive organisations that own very large bits of property. King's Cross and all the development there, for example, is owned by an overseas pension fund. They own things like



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airports. These are very substantial pieces of infrastructure. Gareth spent his previous life organising half of these things.

Q682 **Rushanara Ali:** On to international trade and safe openness, then, John, I have a rather technical question for you, which is about the CCPs and CSDs. This is the proposal in the Treasury's consultation that the UK should have regard to the financial stability impact of UK CCPs and CSDs on other jurisdictions. Did the Treasury consider a similar requirement for other parts of the regulatory system?

**John Glen:** The point with these two is that they are part of our fundamental infrastructure. They are not really in the same category; they are something that needs to function in all circumstances. You are not going to gain growth and competitiveness through them. They are just fundamental planks of our infrastructure in the City.

Q683 **Rushanara Ali:** Should other jurisdictions do more to consider spillover risks for global financial stability resulting from their financial systems?

**John Glen:** It is not for me to talk to other jurisdictions. We take an active role in international fora and work collaboratively.

Q684 **Rushanara Ali:** Do you have a view on it?

**John Glen:** I have a view for the UK, which is set out in the future regulatory framework.

**Rushanara Ali:** Given we are interdependent—

**John Glen:** Rushanara, I do not take responsibility for other jurisdictions. What we will do is take responsibility as a global player in financial services regulation. Gwyneth and some of her senior colleagues—

**Rushanara Ali:** I am not asking you to take responsibility.

**John Glen:** Can I just answer the question? I can never answer a question.

**Rushanara Ali:** I think you are being quite defensive.

**John Glen:** No, I am not. I am just saying that I cannot tell you what other jurisdictions will or will not do. I can say that we are involved in international conversations, and will continue to be, even post Brexit, in trying to find the respectable and right course forward. We will try to use that influence through economic and financial dialogues, and through our conversations with different jurisdictions, to put our perspectives that I am accountable for into the mix.

Q685 **Rushanara Ali:** That is what I was getting at. I was not asking you to be responsible for other jurisdictions. Turning to trade, what is the dynamic like between regulators and the Treasury when negotiating international trade agreements? I appreciate that it is a DTI lead, but what sorts of issues do the regulators tend to highlight in the context of trade agreements?



**John Glen:** The regulators, in terms of financial services, are not really very involved in that. I take an interest from the point of view of services more generally in terms of labour restrictions, for example, where data gets involved, making sure that we have agreements that align with precedents.

Most of what is achieved in trade in financial services is done regulator to regulator. The UK-US Financial Regulatory Working Group meets regularly, with senior officials from the US and the UK. We have a very advanced dialogue with the Swiss to get an MRA, which will be done by the end of the year. We use the economic and financial dialogue; we have had those recently with Brazil and India. We have very deep dialogue with the regulators in Singapore. I am going to Luxembourg tonight. We have dialogue bilaterally with others, so that we understand the views of different member states within the EU as well.

With respect to your question directly, I am not aware of where regulators come into the trade agreements, because, in financial services, the default is that we have an ongoing regulatory dialogue, jurisdiction to jurisdiction, as per what we can achieve, where we are likeminded. With the Swiss, we have a common ambition, at a wholesale level, to deliver quite a lot.

Q686 **Rushanara Ali:** Are there tensions between the Government's desire for trade deals and maintaining high regulatory standards, or are the Government managing to navigate through this agenda of getting new trade deals while keeping a firm hand on maintaining strong regulatory standards?

**John Glen:** I am not aware of any time where financial services standards of regulation have been threatened in a trade conversation. What I would say is that, across the whole of Government, there will be different trade-offs. We cannot have everything in every trade deal. We have write-rounds and conversations across Government, and the Cabinet and the Prime Minister will ultimately make those decisions where those trade-offs have to be made.

Q687 **Rushanara Ali:** I suppose it will happen as negotiations start to happen. Let us take the US, for instance. During the period when this was a live discussion around trade agreements with the US, there were concerns about not necessarily financial regulation but regulatory standards and where there may need to be some compromise, for instance in relation to food standards.

I am just wondering if you can anticipate any situation where there may be some tensions between our regulatory framework and standards, and countries that we want to do trade deals with, where they may want something different. Are you confident that that is not going to be the case and that, if it is, we will be able to safeguard the standards that we have?





**John Glen:** I am not aware of any pressure in financial services for standards to be compromised in the context of trade deals.

Q688 **Rushanara Ali:** My final question goes back to the point about money laundering, organised crime and the estimate of about £100 billion of dirty money flowing through the UK's financial sector. This is pre-Brexit, given that we have a very big financial services sector. We have the Economic Crime Bill, but going forward, in terms of what you are looking at post-Brexit and the future of financial services, are you confident that we can put in the right mechanisms to ensure that we really bear down on those numbers?

The interventions and the emergency legislation that are coming should help, but what might the additional interventions be? Is there a focus on looking at how the future of financial regulation picks up on these issues, so that we can be confident that we are not going to continue to have this ongoing problem?

**John Glen:** Yes, of course. The interventions we are making next week are the start of that. We have set out where we will do more in the next session. I would go back to the Financial Action Task Force mutual evaluation report we had in December 2018, which gave us a few areas amid an exceptionally positive report. Those are, largely, now going to be dealt with by this legislation.

I would go back to my very opening remarks to the Chair with respect to the complexity in financial services. One area that is something that we have to get right—we want to be on the right side of innovation but we want to deal with the risks inherent—is in cryptocurrency, digital assets and the platforms, with the whole matter of how those and blockchain impact financial markets. These are complex matters best done with as much consensus as possible, but I also have to recognise that we are in a competitive dynamic with Switzerland in particular and other jurisdictions, so that is something that we give a lot of thought to.

We do not want to displace risk from one area to another, so I would say that our work is never done. We have the legislative framework and the innovations that I have spoken about, but there will always be more things to do, because bad actors have always existed and they migrate to different places.

Q689 **Kevin Hollinrake:** If we just go back to capital frameworks, insurance companies and banks, following on from some of Rushanara's points, it was a very big announcement last week, John, in terms of Solvency II and insurers holding less capital. I totally support the reasons for doing this, by the way, in terms of investing in vital infrastructure. Fewer small insurers will be caught within the scheme, and there is also this broader range of assets. Everything seems to be a loosening. Was there nothing that needed tightening up when you looked at this particular issue?

**John Glen:** What, Solvency II?



**Kevin Hollinrake:** Yes. Sorry, I was not clear.

**John Glen:** There are two elements. There is the risk margin, on which there was broad consensus that we reduced by 60% to 70%. Then there are the assumptions underlying this matching adjustment. We will consult in April. We will then look at what that says and what assumptions we should have, in terms of that spread calculation and where that ends up. There are a range of views out there. We have been in deep dialogue. Gwyneth and I have held conversations with the insurance industry and the trade bodies that they are in over several months, so we will continue to work through that very intensively over the coming weeks. The PRA is very much at the heart of that conversation and we hope we can get to a consensus on it. There are always a range of large and small firms that will have different complementary or divergent views, and we will take those into account.

Q690 **Kevin Hollinrake:** It was a big drop in the capital requirements. Vicky Saporta, when she spoke to us, expressed some concerns. She said, "We would like to see an adjustment to the matching adjustment benefit for the sake of protecting the annuitants and the policyholders". You referred to that in your speech as some of the core requirements that you might need to look at. Was that what you were referring to?

**John Glen:** Consumer and policyholder protection is absolutely part of it. There is no question of us ditching that in favour of a liberalisation. That is not what we are trying to do. We are trying to carry those two together. It is incumbent upon us to set out the rationale behind the assumptions and to get to a point where we can ask, "What is it that we are doing here?"

What I am concerned about at the moment is that there is no transparency over what level of risk we are affording with the system as it is. It is incumbent upon Government and regulators to be clear about what risks they say exist. You cannot just assert that there is a risk but not prove it. We need to get that right. On this quite complex issue of the assumptions and the calculations behind it, we are talking deeply with very clever actuaries to get this right. I do my best to keep up.

Q691 **Kevin Hollinrake:** She was pretty specific in terms of the issues: "We are concerned that currently the matching adjustment benefit itself...stands at a staggering £81 billion...at the end of 2020, above the total capital requirement for the life industry, which is £76 billion".

**John Glen:** Kevin, that is what the consultation will fully take out, and the assumptions behind those numbers. The point is that you can mention those numbers, but there are issues around how you would calculate them and so on. As I say, that is why we have taken this move. We will introduce that consultation and see where we get to.

Q692 **Kevin Hollinrake:** Conversely, I have read concerns that, if you did something with the matching benefit that is less generous, you might cancel the benefit you are doing on risk margin.



**John Glen:** There are, of course, people who say that the risk margin cut should be higher than 60% to 70%. There are those who say that and we will continue to look very carefully at it. You might ask me about MREL in a minute and we could talk about that.

**Kevin Hollinrake:** I could do that.

**John Glen:** I thought you might. There will never be a complete consensus, but there will be a range of views. We have to find not the midpoint but the right point where we can justify it, and that is what I am in the business of doing.

Q693 **Kevin Hollinrake:** Guy, you mentioned that investment in infrastructure is good. These are funds that predict risk way into the future and it makes sense to hold assets in them, but these are illiquid assets, are they not, rather than more liquid assets like bonds and the rest of it?

**Guy Opperman:** Yes, most definitely. Listen, this is fundamentally John's portfolio but, clearly, I am very interested in it because it impacts on what I do and on what the Government's priority is, which is a change, putting it bluntly, to the way in which pension schemes and insurance organisations invest, hopefully in the UK but it can be elsewhere, in illiquids—or infrastructure, to use another word. It is certainly my view that the change that John has brought forward is the right thing to do.

Clearly, you have to have a sufficiency to safeguard liabilities, but on any interpretation, in my view, there is an excess of capital above the liabilities. What do you do with that capital? It seems to me entirely appropriate to invest in a different way and, frankly, Governments for the last 25 to 35 years have been looking at it and have not taken these decisions. This is unquestionably the right decision. It is the right decision in this particular market, but it is the right decision for this country, more particularly.

Q694 **Kevin Hollinrake:** Are there shovel-ready projects for this money to go into or is that going to be a problem? If you create this opportunity, are we going to be then thinking, "What the hell are we going to do with the money?"

**John Glen:** Plenty of the insurance companies tell us that there are. If you ask Sir Nigel Wilson, he will tell you that he has billions ready to go.

Q695 **Kevin Hollinrake:** In terms of projects ready to fund?

**John Glen:** Yes.

**Guy Opperman:** He certainly has the capital. There is then a wider thing about Government ensuring that there are projects of sufficient size, because we are not talking about £5 million to £10 million projects. If you speak to most of these organisations, the minimum investment they will be making is £500 million.



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**John Glen:** I can direct them to the UK Infrastructure Bank, which is being formed rapidly. One of its purposes is to crowd in this private money. There are some synergies from that institution that would work well with this.

**Guy Opperman:** The proof is in the pudding as well. Some lovely organisations that are non-UK are doing exactly this in the UK, and it would be nice if our organisations were doing it in the UK too.

**Kevin Hollinrake:** Could it dual the A64 in my constituency?

**John Glen:** Nice try.

Q696 **Kevin Hollinrake:** John, you mentioned 125% mortgages. The greatest financial expert in the world, Warren Buffett, said, "What we learn from history is that people don't learn from history". Now, 125% mortgages were also a feature of the crash that came in the late 1980s, so we did not learn that lesson. Some might say that we are moving—with industry lobbying, as it always does, and we should also listen to industry as well as regulators—to a lighter-touch environment here, which might have unintended consequences that we probably cannot foresee today. Some people are saying that this will end in ruin, which might be a bit dramatic, but is that not a worry for you?

**John Glen:** I do not accept the presumption that we are bound to go down that route. We are trying to set a framework that has a number of checks and balances that create accountability for decisions, and the ability for cost-benefit analysis to be undertaken proactively to ensure that we do not waste efforts. I am never going to say that there is no risk, of course, but we have to get to a point, through scrutiny and dialogue, where we can identify these elements and act proactively ahead of them. That is a good example, where perhaps there was a collective inertia because it was thought to be a one-way bet.

Q697 **Kevin Hollinrake:** It certainly was. Is there not a risk that we just take this capital and give it back to shareholders?

**John Glen:** We are not changing the rules and then prescribing exactly what they do with it, but all private firms will be accountable for the decisions they make.

Q698 **Kevin Hollinrake:** There is a risk of that, is there not? They could do that.

**John Glen:** What private firms tell us in conversations—and I certainly speak to the biggest firms, which are very enthusiastic about doing this—is that they want to invest in infrastructure projects, but I cannot govern exactly how they spend it.

**Guy Opperman:** The point about going back to shareholders is that, of course, any company can give money back to its investors at any stage. That having been said, the reason they want to do this is they see a commercial opportunity in investing in UK infrastructure. While the A64



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would not necessarily be at the top of everyone's wish list, bear in mind that the Birmingham relief road is paid for by private capital. There is a charge to take it, but it is paid for by private capital. Several of the airports are built by pension funds and paid for by private capital—pension funds or superfunds—that then charge a fee for that.

**Q699 Kevin Hollinrake:** Let us move on to banks. On capital requirements particularly for smaller and challenger banks, is there more we can do? We are not really seeing these banks move from the mid-tier into the top-tier, are we? What more do we need to do? I know you have had lobbying, and you mentioned MREL before. What more can be done to make sure that that is easier?

**John Glen:** Gwyneth was very involved in the unit that set up these smaller banks, but you are absolutely right to say that we have a high concentration in the bigger banks. The minimum required eligible liabilities issue is a big concern. It was reviewed. OakNorth said that that matter was closed. I do not think everyone was satisfied, but those changes were welcome. There is still some more work to be done on looking at the transaction accounts and the transaction account threshold.

There are issues around the problem of disruption avoidance and how you get that right. The fundamental problem is that there is a lot of inertia. When she was in the Treasury, Andrea Leadsom brought forward changes in terms of making it much easier to switch bank accounts, but that did not have the take-up that everyone thought it would have.

What I think is happening is that the nature of banking institutions and financial institutions is changing. We have more fintechs and institutions that do not necessarily resemble a bank at the moment but they are on a pathway to being one. As payments and financial transactions change, we are seeing tech-led banks. I vividly remember visiting Starling Bank in Southampton and speaking to one of the senior people there, who was a technology expert, not a banker. That is what is happening.

The challenge will be how you create the same conduct and systemic stability oversight of these entities, while enabling them to compete with the bigger banks that we continue to be in love with, frankly.

You asked me what we can do. We can encourage more and more innovation. You have been a great advocate for mutuals and alternative forms of finance, and I welcome that. There is a strand of opinion in society that wants a more intimate relationship with their financial services provider. Equally, when it comes down to wanting the cheapest mortgage, sometimes the efficiencies from scale make that difficult to sustain. There is a trade-off.

**Q700 Kevin Hollinrake:** Guy, you mentioned that you set up a community bank.



**Guy Opperman:** I have to be careful because, to be fair, he regulates this and I have no regulatory involvement whatsoever, and I have a vested interest because I sank my life savings into setting up Atom Bank in County Durham.

**Kevin Hollinrake:** Very successfully.

**Guy Opperman:** It has £3 billion under management and employs about 400 people. It is the first completely digital app start-up bank in this country, and long may it thrive. Listen, I read the notes from Vicky Saporta and Professor Aikman at your previous sessions, and I would make two points.

The first is that it is such a marathon. You need really deep pockets to set up a bank. It takes a long time. It took me four years to set up the community bank. At the time, we had the regulatory requirements of a normal Barclays/whatever, and this is a beefed-up credit union, frankly. It is a marathon, so they should simplify it, basically. I know they say they have done it. I am out of touch, because I do not run these things now, and they would argue, as Vicky did in her evidence, that it has been simplified. My personal view is that they could go a lot further. There is no question. Look at the way the Americans set up banks as compared to how we do that. We still have, by and large, a one size fits all.

The second thing to say is that, again, treating challengers differently is very good for competition. Going back to the point I was making to Alison, these disruptors are getting into the space. The Northumberland Community Bank has one tiny office in Ashington—the most deprived part of Northumberland, which is a very deprived area, by and large—but most of it is all a digital bank. You have a disruptor in a very low-income area, and that is the only way they can do it, because setting up these things is really complicated and very difficult. That is a mutual as well. It still remains quite difficult, I have to say.

Q701 **Kevin Hollinrake:** Are you a supporter of things like internal ratings-based models to make it easier in terms of the regulatory bit?

**Guy Opperman:** Listen, I am not in the weeds of this and it would be wrong of me, but I support making it simpler to allow worthy new entrants to come in. We had the same thing. Constituents come to us about planning applications. It takes a long time.

**John Glen:** I just wanted to mention one specific thing called strong and simple, an ongoing piece of work that Sam Woods and others at the Bank are doing, which is designed to capture this simplification process. We have very sophisticated regulators.

What I see more and more is some of these new actors finding it very difficult to interact efficiently with the PRA and the FCA, because they are not used to the mode of analysis and the lag between getting things back. They say, "I need to get on with this. I have a growth trajectory for



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these sorts of products and services". I say, very respectfully and directly, to the PRA and the FCA—and I am sure I can say it publicly now—that they need to think about the effectiveness of their interface with these smaller entities, so that they can understand what is going on more quickly and give them the approval. The other thing is that everyone thinks it is a one-way bet.

The regulators would also say that there are significant anti-money laundering issues that need to be embedded into this process of getting people onboarded, but differentiated capital requirements and suchlike are things that will be important to allow people to rise up. That glidepath that came out of the MREL outcome of the review before Christmas is welcomed by most of those mid-tier banks.

Q702 **Kevin Hollinrake:** I was going to come on to that—yes and no. It has not affected things at all for the people who are lobbying you, principally. The Aldermores and the Paragons are beyond the stage of that glidepath, so it has not changed anything and they still have to put a lot of money aside.

**John Glen:** There was a range of them. There was Starling, OakNorth and Monzo. I do not think that we can talk about them as one homogenous group.

Q703 **Kevin Hollinrake:** I do not think it helped any of them, from what I know.

**John Glen:** That is not what I have heard.

Q704 **Kevin Hollinrake:** This is what Nigel Terrington of Paragon said. He talked about the issue about pre-funding the FSCS. That is the problem with MREL. MREL is there to try to make sure that each bank has enough money in it.

**John Glen:** I am very aware of what Nigel said in his proposal, but I do not think that you will find that Anne Boden at Starling would agree with him on that. The FSCS is fully funded. Within seven days, it pays out. A pre-funded scheme would not happen overnight; you would have to do it over time, so that would cause dislocations in the short term, but I am not sure that the distress of insolvency would be alleviated for consumers.

Our approach in the UK is in line with the Financial Stability Board guidance, so I am not sure that it is necessarily the way forward. There are some issues, as I mentioned, around the transactional account threshold, which is ongoing work that could be meaningful for some of them, but I do not think that that proposal is the panacea that Nigel thinks it might be.

Q705 **Kevin Hollinrake:** He does say that, if done on a pre-funded basis, the cost of money to him would be one quarter of his current interest bill, which is pretty powerful.



**John Glen:** I am not going to get into discussing specific banks.

**Kevin Hollinrake:** Compared to MREL, that is.

**John Glen:** What I would say is that, of that group of 11 that came to us, I have not heard any reaction since December. There was no consensus on that pre-funded thing. I met with them on a number of occasions. Clarifying the threshold and the glidepath, and having an ongoing conversation about the transactional account threshold, was helpful to a degree, but I concede it did not give everyone what they wanted.

Q706 **Kevin Hollinrake:** And I know you cannot. There was a certain discussion about the way the Financial Services Compensation Scheme is funded. Currently, it is largely to do with turnover and business written. Have we looked at moving to a polluter pays principle?

**John Glen:** That is a fair comment. Nikhil and the FCA have put out a discussion paper on this, which will start a process of looking at it. The asymmetry between the pools that they pay into and where they are applied is also important. Most of the increase is driven by SIPP operators at the moment, which is a major component of it. I have always been very aware that industry is not happy about the inherent unfairness, in that what they are paying and what it is paying out for do not match.

In the end, it comes down to what, overall, we want in this country with respect to thresholds of pay-out and the level of risk. Clearly, it is a political decision, but, if you reduce that £85,000 threshold, there is a whole different conversation then about what we have been doing.

**Kevin Hollinrake:** I am not suggesting that. Sorry, my final question is a bit leftfield—mortgage prisoners. We have talked about this many times. You talked about market failure in one of your earlier answers and we have true market failure here. Even if you confine it to the roughly 50,000 mortgage prisoners who are not in arrears—

**John Glen:** 47,000.

Q707 **Kevin Hollinrake:** According to the FCA's report on this, only 200 people have switched mortgages. You and the Chancellor have promised practical solutions to this problem. There are none so far.

**John Glen:** I had a conversation just yesterday with Gwyneth's officials, looking at this matter. In fact, I was going to invite you for another conversation with others about this matter.

**Kevin Hollinrake:** Great, I look forward to that.

**John Glen:** It is not straightforward. Your suggestion last year was a cap. We discussed it bilaterally, as it were, a few months ago. We are continuing to look at this. I see the letters from the campaign organisations. I look at that distribution of the 47,000 who are unable but would benefit, the 60,000 who can switch, with a massive propensity not





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to, the 30,000 who cannot but would not be likely to save, the 34,000 who are in arrears—how do you deal with them; how do you break down that population?—and the 18,000 who are near term and who do not want to.

We are in conversations with UK Finance. We continue to think about what we can do here, but it is not straightforward. I stand by everything I have said over the last four years. This is a subject that I will keep looking at and work collaboratively on to try to find a solution.

**Kevin Hollinrake:** Thank you. I look forward to that meeting.

Q708 **Gareth Davies:** I have the great pleasure of having a very positive subject to discuss with you, which is innovation in the financial services sector. Let me start with an open question to you both. When you look at the financial services sector and the innovation that is going on, what is exciting you the most, John, in terms of making us a more competitive country when it comes to financial services? Guy, what innovations are taking place that you think will help improve financial inclusion the most?

**John Glen:** The overall context in terms of the future regulatory framework is being able to do things. I talk about these 30 reviews. They cover such a wide range of things. I relish the fact that, as a Minister, I have an opportunity to do things. The Solvency II thing and the wholesale capital markets change are real. They get rid of some things that people have been irritated by for a very long time, but they do it in a very sensible way.

The fintech industry is fantastic in this country. We have enormous opportunities there that will grow. We see massive investment through uncertain times. We had 120 IPOs last year but there is still more work to be done. We had the Mark Austin review on capital raising of listed companies. We could have done some of these things anyway, but I suppose what I am excited by is the fact that there is still a great interest in financial services and a great deal of work to be done.

It is always difficult to say one particular thing. I am interested in the disruption. Positive things can come from blockchain and the verification of transactions in a different way, but one has to get that right in the context of the risks that are associated with that. It is something that the Chancellor is very keen for me to work on, and it is something that I am working on right now. All of these things need to be landed, and they need to be landed well, so there is not one specific thing that I am holding back on.

**Guy Opperman:** I would give you three answers. The first would be specific policy interventions over the last couple of years that have made a massive difference, such as changes and reforms that John in particular has brought in on affordable credit, which has made a huge difference, expanding access to finance in various shapes and forms, and massively enhancing savings. You will be aware that automatic enrolment, for



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example, is the biggest savings project that this country is engaged in. It is totally transforming: 10.7 million, in every single constituency up and down the land, have their 8%. It was less than 40% for women and people under the age of 29, but both have now risen to above 80% over the last 10 years. Those are transformational changes. There is way more to do and lots to do on personal savings as well. That is the first thing. Those changes are already coming in but are still to be implemented on an ongoing basis.

Secondly, I endorse John's comment on the fintechs. In my space of pure pensions, you see consolidators like PensionBee, but you see some really clever fintechs that are intervening to help people run their money better. Chip, MoneyWise and a whole bunch of other companies are in this space, which are very clever and very good at helping people, and making a living as well, which is wonderful, and long may it last.

My final point would be that the single biggest intervention, which I will probably carry to my grave, is the pensions dashboard, taking the principle of savings apps that we all now have but no one had 10 years ago. You now have a banking app and a savings app and, eventually, you will have a pensions app. We will take the Tube in two or three years' time, and be able to move our money around those three things and save in an interrelated way.

By the way, it will get massive consolidation. All three of those organisations—your bank, your savings organisation and your pensions organisation—will consolidate, without a shadow of a doubt. That is good for the consumer, ultimately, because you are going to bring down costs and have things better run.

Going back to Kevin's point about investment, these organisations will have way larger amounts of cash. The minimum requirement of the Australian big superfunds is £35 billion. We are nowhere near that but, within literally five or 10 years, we will get to those sorts of sizes, these organisations will merge, and the buying capacity and the capacity for returns becomes way bigger.

**Q709 Gareth Davies:** You both mentioned fintechs. Let me just focus on that for a second. With enhanced technology comes potentially greater risk for our stability as a financial centre but also for consumers. Do you have confidence that the FCA has capacity, and that it is sufficiently focused and keeping up, quite frankly, with all the innovation that is taking place in the financial services industry?

**John Glen:** The FCA has been really helpful in embracing the outputs of the Kalifa review last March in terms of the scale box and, previously, the sandbox—some of these mechanisms to get innovators into the FCA to say, "What do we need to do to move this to approval stage?" That is an ongoing challenge and there will be more things that they will need to do to keep the capacity there to do that.



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I find the FCA to be very co-operative in this space and responsive to the things that Ron Kalifa advised us to do. We are in the process of setting up the CFIT organisation and we got some money from the Chancellor to seed fund that, but it is not a single point in time. I do a lot of work talking to fintech founders and to groups that represent different parts of the industry.

At the moment, the FCA is doing a lot, but it is under a lot of strain. The transformation programme that Nikhil has got underway, which I fully support, is going to make them even more effective and better at ascertaining where risks lie among the regulated population. He also gets the challenge around being dynamic and opening up to new conversations with new actors in financial services.

**Q710 Gareth Davies:** The reason I ask is that one of the criticisms coming from the fintech sector in this country is that, in terms of those that are trying to expand abroad and get registered in other countries, those global regulators look to the home country regulator. There are a number of quite significant delays in some of our firms getting registrations. One example is AML registration for crypto-focused firms, with up to a two-year wait to get applications processed. There is concern within the fintech industry that there are delays at the FCA and that it is, quite frankly, not keeping up with the innovation.

**John Glen:** I mentioned earlier the imperative to find a new dynamic interface with people who are not traditional actors. I do want to be clear that it is a matter for the FCA. We have put cryptocurrencies into the financial promotions regime and it is really important that we have done that. There are legitimate questions around anti-money laundering and issues like that, which everyone needs to go through, and I want us to have high standards.

When people talk about other jurisdictions doing it more quickly, it is often used as a device to say, "Minister, you had better get on with it; otherwise they will all clear off to another jurisdiction". I will say, "We also want soundness of our regulators". Yes, we have to speed it up, but we have to do it right, and I respect their need to get that right.

**Q711 Gareth Davies:** Moving on slightly from fintech, the Treasury has proposed a secondary objective to facilitate innovation for clearing and settlement services provided by central counterparties and central securities depositories. We recently heard some evidence on this. What was the rationale for not suggesting an innovation objective for the PRA and the FCA, granted that there is the secondary one on competitiveness?

**John Glen:** You could go on like this and find new words and objectives, and satisfy yourself that you have covered everything. What we need across these primary and secondary objectives, principles and remit letters is an operating formula that gives them clarity on what they are supposed to be doing. It might be nice for us, as politicians, to find



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phrases and words that apparently satisfy, but we need a workable organisation that is effective in doing what its core objectives are. We need to be clear about what we are asking them to do, what it means, and how they are going to be held to account for it. We cannot just create a ridiculous wish list of every single fine-sounding principle that makes it very difficult for them to do their job. That is a pretty direct answer, but that is the essence of it for me.

**Q712 Harriett Baldwin:** It is fantastic to hear all of this progress. One of the things we all can sign up to in terms of the future of financial services is that we do not want to see a repeat of the economic crisis of 2008. One of the big interventions around stopping too big to fail was to encourage all these new entrants into the market, so that you have a much broader choice for consumers and less concentration in the big names. I am delighted to see that there have been something like over 50 new banks registered with the PRA since those reforms were brought in. That is great news.

Can you share with us, John, how important open banking has been to the whole progress? We have had mixed views given to the Committee in terms of how useful open banking is. I just wanted to know what your thoughts were.

**John Glen:** Open banking is an imperative for the nine biggest banks to have an interface with fintechs and to be able to open up. There has been a lot of progress but there is more to be done in terms of the volume of transactions and how commonplace it is. There is an agenda around open finance, which would be the extension into a new realm and a wider set of actors, and that is the next decision.

There is a new regime in terms of dealing with some of the operational challenges that existed, which I am aware of, but what is important is that we do not lack ambition on the next natural evolution in this, because it is about the interface between traditional and new actors, and creating new opportunities in new consumer products and services.

**Q713 Harriett Baldwin:** Is it helping people switch more? Are you seeing that showing up in the statistics?

**John Glen:** In terms of switching their primary provider, I do not know about that, but it is bringing more innovation into mainstream banking. Of course, the best of these are then often acquired by the big banks, which is an interesting dynamic. There will be some that will scale up and become a meaningful challenger competitively as an institution, and others that, essentially, get to a point where the board will say, "I have gone from X to Y" and are bought out by an incumbent. We cannot help that. Then we have the issues around competition that may come in.

**Q714 Harriett Baldwin:** I just wondered whether you felt that things were now more competitive than they were in the run-up to the financial crisis for consumers.



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**John Glen:** I definitely think that they are, absolutely. There is a whole range of services that you can have. You do not have to have that traditional relationship with a Captain Mainwaring in a bank in your home town. You can interface with financial services providers in different ways.

To be fair to some of the bigger banks and the services that they can now offer, one of the banks was telling me recently about how it does mortgage advice on Teams or Zoom, and it is much better. You could not get that concentration of expertise in every branch. There are changes and challenges with respect to financial inclusion and all of that, which is very important.

**Guy Opperman:** Speaking as the Minister for Pensions, I look longingly at open banking, because I would love to have open pensions. You have 10 to 20 mainstream banks. We have 40,000 pension schemes. The next logical extension, just like we are catching up on savings and banking apps, is that I would want us to be going down the open pensions route, but data is everything and we do not have the data at the moment.

Q715 **Harriett Baldwin:** It sounds like a wholehearted endorsement for open banking from the Treasury. In terms of the new entrants in the banking space growing—and you have talked about acquisitions—are there any other barriers to the new entrants becoming big players? For example, we have had evidence about the balance sheet levy, which has a bit of a cliff edge to it. Is that something that you are looking at again?

**John Glen:** Honestly, I cannot recall that particular element. I probably have been briefed on it but I have been here for a while now this afternoon, and my mind is blank on that.

**Harriett Baldwin:** These are things that might be stopping some of the entrants being more successful in gathering new customers.

**John Glen:** It will be a combination of getting the capital together and the regulatory thresholds. What you are dealing here is people's fundamental financial health, so regulatory thresholds are reasonably high. Gwyneth, you were involved in the new bank start-up unit. Perhaps you could just explain your perspective on how that has evolved.

**Gwyneth Nurse:** That was a very important initiative.

**Harriett Baldwin:** I remember it well from my time.

**Gwyneth Nurse:** We brought together the PRA and the FCA in a one-stop shop to address the point that nobody knew whom to talk to and they were getting bounced about between the regulators. That has been really successful in terms of a nursery area for people to join and be helped through the process, which has improved since the days of the Minister for Pensions setting up the bank, but there is always more to do.

There is much more being done now in terms of capital and glidepaths, and smoothing out those cliff edges. Again, the people coming through



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the system will say that more should be done, but there has been an enormous amount of progress. I know that the Minister asked the PRA to keep this under close review.

**Harriett Baldwin:** That is really helpful.

**John Glen:** The challenge is always to get them on practical things quickly enough, because some of these things, like strong and simple, seem to take a long time, but they are quite complicated. We are trying to avoid enabling fundamental shifts in risk while also enabling innovation and meaningful competition. It is quite a dilemma for them to get right. You know that.

**Harriett Baldwin:** Yes, it absolutely is.

**Guy Opperman:** There is way more competition—end of story.

Q716 **Harriett Baldwin:** Moving on to something that is really close to our focus at the moment with Monday's announcement of something we have wholeheartedly called for, which is this Economic Crime Bill, the anti-money laundering stuff is very much your responsibility in terms of the future. Are you happy with everything that is going into the Bill this week or were there things that you would have liked to see go into it that did not quite make it?

**John Glen:** The Office of Financial Sanctions Implementation is delighted that we have had this opportunity to do this.

Q717 **Harriett Baldwin:** Have you got everything that you wanted in there?

**John Glen:** No. What I am saying is that there was a practical impediment around time to do this, so it is a good first step. There will be more things we will want to look at.

Q718 **Harriett Baldwin:** What were the things that you wanted to put in that did not get in?

**John Glen:** We are doing a review of AML. We are due to produce a response on that in June. That is more generally, not just with respect to the current crisis in Ukraine and Russia. There is a fundamental issue with the Office of Financial Sanctions Implementation. It is a new entity. It has become much more central now as a post-Brexit consequence. If you look at the resourcing of it, we need to make sure that we get that right, because this has thrown into focus the need to make sure that we have that capability.

**Harriett Baldwin:** I am trying to lead you into answering this, but you are not going to fall into my trap.

**John Glen:** I probably will.

Q719 **Harriett Baldwin:** If I open a new bank account with one of these whizzy new banks, they will have ways of figuring out my identity, doing identity checks on me pretty quickly and making sure we are through the



anti-money laundering hoops. Would you like to see Companies House be obliged to do the same sort of thing? Companies House does not strike me as having been as innovative in this space.

**John Glen:** It is an interesting concept. We see this with respect to payments and reimbursement. I had a conversation with the Security Minister on this matter around how you optimise that environment and what sort of delays or tensions you put in there to get this right. Some of these new fintechs want to do everything with a new, secure mechanism. When it is secure and verifiable, that has to be a positive thing. The question is whether you can do it universally and whether it is genuinely as secure.

There are people who come to the Treasury and say, “We have solved the access to cash problem”. You can just have one of those funny codes that you have on your phone—QR codes—that you can get cash out of. It is very exciting. There are lots of innovations like that. Nonetheless, there are also reliability challenges, not necessarily with that but with some of these innovations.

There is always going to be a bit of a trade-off, but we can do things more effectively. On the whole access to cash debate, if you think about the 2% or 3% of people who live in a sparsely populated area and do not have coverage, how do you deal with that problem when you have universal coverage?

Q720 **Harriett Baldwin:** You are slightly taking me off the subject, which is Companies House directors and their identities.

**John Glen:** It is not my area.

Q721 **Harriett Baldwin:** No, I know it is not your area, but anti-money laundering is your area.

**John Glen:** If we can sort that out in that way, I would like to.

Q722 **Harriett Baldwin:** Companies House has made it so easy for people to steal other people’s identities and to pretend to be directors.

**John Glen:** That is at the core of what we are trying to do. We have to sort this out. I am in favour of anything—

Q723 **Harriett Baldwin:** Would you have liked to have seen it in Monday’s Bill?

**John Glen:** I do not think it was possible, in any way, to have done that with that amount of speed. We have to do a better job of explaining that complexity, because the public, rightly, want to be reassured. It was something that was in that FATF report in 2018.

Q724 **Harriett Baldwin:** We all know people who have had their identity stolen and become directors of companies at Companies House, without going through these kinds of things that banks are required to do.



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**John Glen:** We have been very clear about the imperative and the urgency around the legislation subsequent to next week, and my colleagues in the Home Office will be bringing forward more in due course.

**Chair:** That brings us to the end, and you have a plane to catch, so I will summarise and thank you very quickly. Can I thank all three of you for appearing before us? Thank you, John and Guy in particular—a very good double act. The fact that you have been in position now for four or five years in each case has shown, in that you really do understand the material that we have been asking you about, so I am grateful for that, and Guy in particular on pensions and inclusion.

**Harriett Baldwin:** And Gwyneth as well.

**Chair:** I did thank Gwyneth at the beginning, but thank you for that. Thank you for appearing, even though we do not have oversight of your Department, Guy. Sanctions and economic crime have been referred to. We intend, as a Committee, to continue quite hard on economic crime and are going to be looking at sanctions very soon, so we may see you again soon and we look forward to that. That concludes this session.