

Santander UK – Written evidence (SCG0046)

Santander UK welcomes this opportunity to further contribute to the committee's important work of scrutinising how our financial services regulators are meeting their new objective to facilitate competitiveness and growth.

Santander UK has 14 million active customers, more than £200bn of customer lending and over 400 bank branches in towns and cities across the UK. At the same time, as part of the global Banco Santander Group, we are keenly aware of the importance of ensuring the operating environment for domestic banks keeps pace with other jurisdictions in Europe, the USA and South America.

Progressing this agenda is not just in the interests of market participants. Encouraging growth and ensuring the UK remains a competitive place for international businesses looking to operate here has a direct impact on the real economy. A more competitive environment for financial services in the UK can support households, businesses and government to achieve their ambitions.

We have therefore supported the Secondary Competitiveness and Growth Objective (SCGO) since it was first proposed. It has been positive to see the direction of travel over the past year and we welcome the renewed focus from all parties, including regulators, on boosting the international competitiveness of the UK.

Nonetheless, as our CEO Mike Regnier set out in his oral evidence to the Committee last month, we think there remains work to be done – both in ensuring that the SCGO is embedded within the culture of the Financial Conduct Authority (FCA) & the Prudential Regulatory Authority (PRA); and in ensuring that it has a meaningful and consistent impact on the regulatory outcomes that firms experience.

Consistency of approach

From Santander UK's experience, it has been positive to see increasing reference to the SCGO in our engagement with regulators, which matches the change in tone publicly, exemplified by the comments made by both FCA & PRA CEOs at the recent Annual City Banquet.¹

¹ "[Competing for Growth](#)", speech by Sam Woods "[Growth: Mission possible](#)"

In-terms of recent decisions, the changes announced by the PRA to the Basel 3.1 rules, the FCA reforms to primary & secondary market rules and the FCA's review of handbook considering the Consumer Duty are all positive and constructive examples of engagement with firms that led to an outcome that supports UK competitiveness.

However, while there are a number of positive examples, questions remain about the consistency with which the SCGO is being factored into decision making, particularly by the FCA. As several witnesses have referenced to the committee in oral testimony, the approach taken recently by the FCA to its enforcement proposals appears at odds with its increased statutory focus on driving growth and ensuring the UK remains internationally competitive.

The FCA consultation ([CP24/2](#))² on its enforcement proposals note that the regulator's preferred approach is aligned with the SCGO as "the education, deterrence, trust, reassurance and confidence referred to above will advance our objectives in improving the long-term integrity, cleanliness and attractiveness of the UK market". Industry reaction suggests that this characterisation failed to recognise the concerns that firms and their investors share as to the market and share price impact of being named at the start of an investigation, ahead of any wrongdoing being identified, and the impact that this would have on the UK's attractiveness. We would agree with this perspective.

Without clarity over how regulators are factoring the SCGO into individual decisions, achieving that consistency of outcome will remain a challenge.

As the Prime Minister recently emphasised at the International Investment Summit, it is policy & regulatory certainty that is key to attracting international investment. Therefore, this ongoing lack of consistency risks undermining any message to international investors that there has been a fundamental shift in regulatory culture and that operating in and from the UK is more attractive as a result.

speech by Nihil Rathi, both 17th October 2024

² pg 27, Compatibility Statement. FCA CP 24/2

Regulatory burden

We welcome the committee's focus on the level of regulation for firms during its enquiry. We support a strong regulatory system that protect consumers from direct harm, and from indirect harm via market instability. We also believe that regulation, when applied appropriate, can achieve these outcomes whilst also enabling firms to support a vibrant economy.

Overall, we welcome the level of engagement and have a productive relationship with our regulators. We are candid with them and do feedback where we have challenges. However, the level of information that we have to provide does place a strain on the business. This year we have held over 300 meetings with the regulators. In addition, we have responded to over 300 regulatory requests and managed over 400 regular regulatory reports, equating to over 2,500 submissions a year. With such a large number of data requests, it is unsurprising that there are times where multiple requests from regulators can make demands of small teams within the business, posing capacity challenges. We believe that regulators and Government could take action to improve the coordination of these data requests and reduce their impact on the bank, even without reducing the total number of requests made.

The committee requested our view on the costs of implementing the FCA's Consumer Duty, one of the most significant pieces of regulatory work in recent years. It is difficult to calculate an implementation cost for the programme as, due to the broad nature of the Duty, it impacted the entire bank. This ranges from the direct cost of the dedicated resource required to deliver the Duty and ensure compliance, through to the cost of ensuring that every colleague was appropriate trained to take the Duty into account into their daily work.

When considering the regulatory costs in the UK, another area of focus is the redress framework and actions of the Financial Ombudsman Service (FOS), which is creating a costly and uncertain environment. We welcome the Chancellor's recognition of this concern in her Mansion House speech, and we support a bold approach to reform from the FCA and FOS to materially improve the certainty and predictability of our operating environment.

International benchmarking of UK regulatory expectations

How the regulatory environment in the UK compares to other countries is an important factor that contributes to the UK's global competitiveness. We welcomed the committee's interest in this when our CEO gave evidence, and in our following correspondence.

As the committee would expect, the relative cost of regulation and compliance across different countries is difficult to calculate. Different countries have distinct regulatory environments, and the regulatory environment itself is only a factor in a firm's total compliance and risk costs. For example, the risk appetite of a firm may exceed the minimum regulatory requirements. Similarly, some costs associated with regulation can be seen as commercially sensitive, such as the relative cost of capital in different countries.

However, in respect of prudential regulation, our analysis shows that for UK focussed firms such as ourselves the capital requirement in the UK does appear to be significantly higher than an equivalent EU headquartered bank. This is driven from a variety of sources, including modelling differences, differences in the approaches to setting the pillar 2 requirement, and differing approaches in respect to setting the Countercyclical Capital Buffer (CCyB). The level of capital required to be held is a factor in determining investment decisions and a high level of capital detracts from the UK's attractiveness.

Given the finalisation of the post crisis reforms (for example, the Basel capital framework, leverage ratio, liquidity ratio, ring fencing and the resolution regime) we think it is appropriate to review the regime to ensure that as a whole the prudential regime is capturing in the appropriate level of risk. We would surmise that the post crisis reforms have all on a standalone basis reduced the likelihood and magnitude of another 2008 style event. However, the capital regime has been set on the premise of preventing 2008, a risk we do not think is still present in the system.

We also see differences in conduct regulation, and differing levels of consumer protection across the globe, most notably and pertinent to the UK right now is in relation to fraud however it is important to note that the drivers of a policy will vary across the globe. This naturally drives a differing outcome however we believe global approaches

should be an important factor in determining a policy approach, a) to ensure the sector remains competitive globally, and b) to ensure the optimum approach to a policy is determined through analysing what does and doesn't work internationally.

Tackling online fraud and scams

As the committee acknowledged across multiple evidence sessions, including our own, the fraud ecosystem in the UK is an illustrative example of some of the competitiveness challenges, and it is worth considering in more detail. We believe that the current regulatory and policy approach to fraud represents both a real risk to the UK's competitiveness, but also to individuals who become victims of this crime.

The current focus has been on reimbursement, or more accurately compensation, of people who have been victims of online fraud and scams. Banks including Santander have voluntarily introduced measures to help compensate victims, since the introduction of the Contingent Reimbursement Model in 2019. In 2024 the PSR built on this model to introduce mandatory reimbursement, requiring banks to compensate victims of fraud.

Whilst it is right that firms take steps to compensate victims, we believe that the focus on 'reimbursement' has distracted actors from creating an environment to protect consumers from falling victim in the first place. We welcome the acknowledgement from the Chancellor in her Mansion House speech of the significant investment made by UK banks in protecting consumers to date, and her recognition that other sectors that facilitate this fraud, such as technology and telecoms firms, must do more to prevent this crime occurring in the first place.

We will continue to do our own part to encourage prevention, and in recent years we have continued to invest in both technological solutions to identifying and preventing fraud, and in our dedicated team of colleagues who work with customers to try and prevent them from making payments to criminals. We have found regulators to be supportive of these efforts.

Keeping SCGO metrics simple

It has been positive to see progress made by both the FCA & PRA on addressing some of the operational challenges that have been a constraint on the competitiveness of our sector. The SCGO metrics show a notable improvement in FCA authorisation speeds and timescales on regulatory decisions, which are an important factor in ensuring our regulatory framework remains agile and doesn't stifle innovation through onerous bureaucratic processes.

On the metrics themselves, Santander UK would echo the widespread view shared by industry that ensuring UK regulators draw effective comparisons with overseas regimes is clearly fundamental to assessing their impact on international competitiveness.

However, we have concerns that assessing the progress regulators have made in implementing the SCGO based on top-down metrics addressing the regulators' impact on economy-level factors of productivity, loses the focus that needs to be brought to this important debate.

We would strongly encourage the committee's recommendations to consider a much more robust disclosure of policy rationale that fully considers the options, trade-offs and unintended consequences of regulatory policy decisions made by the authorities.

A simpler approach to metrics to support accountability is possible. When taking decisions to which the SCGO applies, the regulators should clearly articulate the options that they consider to be consistent with their primary objectives and how their selection of a preferred way forward from among those options has been influenced.

In some cases, the SCGO will make insufficient difference to change the decision that would otherwise have been taken. In others, it will bear sufficient weight to change or shape that decision. In all cases, its impact will be transparent and amenable to scrutiny and accountability. This is the approach taken by the PRA to its secondary competition objective since its introduction by the Financial Services (Banking Reform) Act 2013.

By focusing on the regulators' application of the SCGO on a bottom-up basis in this way, Parliament, the government and industry can be confident that it is having the impact on the international competitiveness and medium- to long-term growth of the UK economy (including the financial services sector) originally intended.

Wider regulatory competitiveness debate: accepting risk is part of delivering growth

The regulatory competitiveness debate can't solely be dominated by discussions on reporting against the new objective. It is vital that there is also a rebalancing of the acceptance of risk across the UK economy to support and drive growth.

Santander UK welcomes recent comments by the FCA CEO Nikhil Rathi about the need for a 'grown-up conversation about the level of risk we deem acceptable in society and the recognition by the Chancellor of the Exchequer in her [Mansion House](#) speech that attempts to eliminate risk taking after the Global Financial Crisis have "gone too far". The call for evidence on the government's planned [Financial Services Growth and Competitiveness Strategy](#) asks the right questions in respect of how to rebalance the approaching in the UK. The call for evidence notes that a sign that the regulatory system is working is when "companies and individuals feel empowered to take responsible and informed risks. Regulation should not prevent risk-taking, and there is an opportunity for more responsible and informed risk-taking across the economy".

We also welcome the revised remit letters that have been given to the FCA, PRA, FPC and the FCA and PSR in relation to payments. In particular we welcome the inclusion of the FPC and the PSR, as it is important to consider how the entire regulatory landscape impacts upon growth. We are hopeful that these remit letters, coupled with the Financial Services Growth and Competitiveness Strategy, will drive a step change in the consideration of growth and competitiveness, however it is important that action is now taken to realise this ambition. As an aside, we are pleased that the remit letters recognise the role that supervision can play in influencing growth and competitiveness

Individual regulatory interventions can often be justified against a single objective without consideration as to whether the cumulative impact prevents firms from innovating and delivering products that

can support consumers, entrepreneurs and investors in their drive for growth.

Progress also needs to be made in improving the plumbing of our regulatory system – including better coordination between the FCA, PRA and other regulators such as the Payment Systems Regulator and the Financial Ombudsman Service. Current cross-regulatory coordination mechanisms like the Regulatory Initiatives Forum are welcome but could be strengthened further. In its current form there is little clarity on how and if the Forum provides a genuine ‘air traffic control’ mechanism to coordinate regulatory interventions effectively. Government could consider appointing Treasury as Chair of the Forum – in line with international examples such as the US Financial Stability Oversight Committee, overseen by the Treasury Secretary.

Conclusion

In conclusion, we welcome the committee’s enquiry, and the wider progress that has been made by legislators and regulators in taking the UK’s international competitiveness and growth into account. As noted by many witnesses to the committee, there is an opportunity cost to failing to consider the UK’s international competitiveness appropriately. It is by enabling firms to take appropriate risks under the safety of a predictable and certain regulatory regime that the banking sector can best enable people to achieve their financial goals, best support businesses to grow, and best drive the economic growth that will fund vital public services.

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