Kuperstein Kapital Ltd – Written evidence (SCG0064)

This memo talks to Pension and Insurance arena that can have a large impact on growth if culture is changed, no new laws are required.

Question 1: What opportunities or changes should be prioritised in order for the regulators to meet their secondary growth and competitiveness objectives effectively?

Problem 1: Brexit has reduced foreign Financial Institutions' access to offer product in UK, increasing the risk of anti-competitive oligopolistic markets.

Response 1: Ensure UK regulators collaborate with foreign regulators rather than block foreign access to ensure proper market competitiveness and breadth of offering. Where there are concerns as to the foreign regulator's depth of experience, have PRA bolster the oversight of a foreign firm that is selling product in UK if its in the national interest and charge fees accordingly.

Example 1: UK Life Insurance market – only 3 large players offer bulk annuities to large DB pension plans. Pricing is oligopolistic – premia are 10% too high. An insurer operating out of Gibraltar can issue bulk annuities that could put 5-10Bn of productive capital back into UK each year. This has effectively been blocked by PRA and HMT due to over-prudence and an unwillingness to be collaborative with Gibraltar regulator. The quantum of capital that would flow back to the UK is multi-multi billion.

Question 2: To what extent are the regulators focused on the objective to promote international competitiveness and growth? Are there areas where the ability of the regulators to fulfil their secondary objectives might be constrained by having to fulfil their primary objectives?

Problem 2: UK DB Pensions have been invested in the wrong assets for 15 years due to the TPR's Funding Code and general excessive prudence from actuarial advisers and trustees. £1.5Trn of DB assets have largely been invested in fixed income bonds/gilts with negative real yields explaining why Pension funds have required £300Bn of additional contributions from UK plc since the Global Financial Crisis. This was a direct subsidy from private sector corporates to fund the public sector, negative yield gilt issuance, and so massively slowed growth in UK since GFC, removed the biggest source of risk capital – the biggest UK equity

investor (DB plans) ceased to exist, and damaged the City of London as a financial world centre of excellence.

Response 2: We cannot turn back time, but appropriate action can mitigate some of the damage already caused. The combination of TPR, advisers and trustee prudence has probably cost UK in excess of £500Bn, both from the excess contributions that UK plc had to fund, and the dampening of growth that the actuarial/regulatory prescribed 'de-risking' has entailed. But now there is an opportunity. Now that interest rates have hiked, most DB pensions are in surplus. Regulate Employee Benefit Consultants more strenuously as it has been their advice that got UK into this predicament. They also have material conflicts in that some run asset management arms of their own, so their independence is by no means well protected. Regulate independent trustees, Improve each corporate's ability to influence how their trustees must act to ensure pension funds are managed with a view not to locking down benefits and walking away, but instead fuelling UK enterprise.

A Value Share[1] pensions framework and/or bulk annuity can achieve this with no loss of security. But the UK Life Insurance oligopoly does not want this – their profitability would reduce at the expense of their foreign shareholders, in favour of UK plc and UK pension members.

Question 3: What are some of the barriers in the current regulatory framework (including the role and responsibilities of other regulators and bodies such as the Payment Systems Regulator, The Pensions Regulator and the Financial Ombudsman Service) that could hinder efforts to drive economic growth and international competitiveness in (a) the UK economy and (b) the financial services sector?

Problem 3: New applicants wishing to enter any oligopolistic market must be almost fully staffed, and well capitalised at the start of the point of application. This means a reduced number of applicants that comply with the oligopoly. The PRA's Wholesale Insurance Accelerated Pathway (as the name suggests) does not really allow for new applicants that are not already backed by a large existing business, thereby perpetuating the continued stranglehold of the oligopoly.

Response 3: Allow new applicants to propose their innovative growth-generative business plan with no capital at the outset and a skeleton

[1] https://www.mandg.com/news-and-media/press-releases/mandg-plc/2024/25-11-2024?utm_source=linkedin&utm_medium=social&utm_campaign=mg-plc&utm_content=bau-bpa

staff, with commitment that if a minded-to authorise is granted, the capital and people will be sourced at that point, prior to full authorisation being granted.

Question 4: Do the regulators have the right capability and capacity to fulfil their regulatory objectives on growth and competitiveness? To what extent might the culture of the FCA and PRA influence their ability to fulfil their growth and competitiveness objectives?

Problem 4: PRA refuses even to hold meetings together with HMT, PRA's response is 'we are here to be prudent, HMT wears the growth hat, not us'. PRA must be held accountable to use the existing raft of regulations as a platform from which to create rather than as a blanket to stifle. Culture must change from throwing up obstacles to thinking of solutions that exist within the rules. Culturally this is 180 degrees from the mindset today. At present if PRA blocks, and an appeal is made to Treasury, it responds, 'well PRA says this is not doable, so we defer to them'. Result: Impasse. Growth is stifled.

Response 4: Charge HMT with preliminary assessment of new applicants or proposed new businesses, require HMT to notify their political masters/ministers of the numerical quantum of the potential for extra growth such a new entrant to the market could generate over time of each proposed venture if it is successful. In NO circumstance should these applications be made to PRA in the first instance, as PRA is a naturally prudent, risk averse business stifler. Have HMT shepherd new business through the PRA approval process. Don't just leave PRA to run the show as they delay, prevaricate and render many applications unviable merely due to time meaning they run out of money. This approach provides HMT with direct knowledge and engagement, thereby assisting lawmakers.

Question 5: How effectively have the FCA and PRA consulted or engaged with industry in relation to the new secondary growth and competitiveness objective?

Problem 5: There has been a lot of focus on the pension world of late, with many consultations. However, the vested interests are so high, and barriers to entry almost insurmountable, that the voices that respond are all of the same mind. Much talk of productive capital, 'obliging' pension funds to maybe invest 5% in venture capital. The British Business Bank (BBB) has been established to assist PRA and FCA to stimulate growth, now as part of the Department of Business and Trade (formerly the Department of Regulatory Reform, Innovation and Skills). But when you

visit the BBB and ask if they'd like to invest in an insurance business that could release 50-100Bn of capital back into UK, you are told they are not actually regulated yet, and you should instead talk to the VC funds to whom they have allocated capital – predominantly focused arbitrarily on Life Science and technology. Surely BBB should be sector agnostic and instead growth obsessed? When we asked BBB to refer us to one of the 30 VC funds they'd invested in they wouldn't as it might be seen to be favouring one over the other. BBB has lost sight of the value it could generate for UK by being politically and not economically focussed.

Response 5: Put actual Senior Fund Investment Professionals directly **inside** BBB (so not hiring private sector funds) who are not required to meet the normal fund manager track-record metrics, who are well connected in HMT and can foster projects that have decent chance of generating growth, with additional value for government. HMT has a department that manages the contingent liabilities of UK. Nuclear decommissioning and unfunded public sector pensions being two of the largest. This BBB person should work closely with them and generate joint solutions where UK state actions and in certain cases continued state support can create very well funded, growth generative businesses. A government inevitably has to deploy funds in order to manage its liabilities, this should not be seen merely as a cost, but the business potential of investing these funds can create whole new businesses, that can have applications across the globe. Fund deployment should be done by people who are creative commercial business folk, not just civil servants. Both UK BBB and the new National Wealth Fund should apply a proper capitalist cultural approach and move away from the posturing of politics while devolving any power of its own agency to small VC funds. We need to think big, think British.

Question 6: In delivering their secondary objective on growth and competitiveness, what opportunities are there for the regulators to help to promote and support innovation in the financial services sector? How effective has the FCA's regulatory sandbox been for supporting greater innovation in the financial services industry?

Problem 6: The regulators have substantial opportunity to promote and innovate in the financial services sector but have self-imposed restrictions on the breadth on what innovation they are willing to support. The regulatory sandbox may be useful for small businesses that are entering an existing market with a similar product but it does not lend itself to true innovation. Politicians need to be involved to drive these initiatives

forward. Regulators and civil servants are by their very nature, prudent, risk-averse and heavily procedural.

Response 6: As proposed in Response 4, establishing a preliminary assessment at HMT where both Treasury officials and politicians are present for new applications to allow for a commercial and national interest assessment of the opportunity and encourage innovation, especially where the innovation is a significant upgrade on the existing market.

Question 7: How should the regulators ensure that any measures introduced to meet the secondary growth and competitiveness objectives work for businesses of all sizes across the sector, including startups, scaleups, and incumbents?

Regulators should be required to run their own scenarios together with (OBR/ONS?) to quantify how a new business line, or entire new business could impact growth- median downside and upside scenarios and communicate these to ministers and HMT. A central list of these should be kept and added to as new ventures come forward.

Question 8: Are there any additional metrics over and above those already agreed by the regulators that would better enable stakeholders to track progress and support scrutiny of their work against the secondary growth and competitiveness objective? How should a measure of growth be included in these metrics?

The different velocities of different types of money should be measured. Injecting equity into a business is far more growth stimulative than lending a business debt. The government /ONS could assess the difference between these forms of finance and incentivise the better approaches.

Question 9: Does the requirement within the secondary growth and competitiveness objectives to align with international standards create any constraints to fulfilling those objectives?

Problem 9: US has consistently generated higher growth than UK since GFC. UK has watched its equity capital market dwindle in large part to DB Pension funds ceasing to buy what used to be >500Bn of equities. The depth of the capital markets, the ability to continue to provide more, and more capital to businesses that continue, year after year, to be loss making, but yet the capital markets continue to fund them as they believe these businesses are the future (think Meta/Facebook, Tesla, Amazon etc) is a key component to what differentiates US growth from UK.

Response 9: The UK needs to engender a deeper capital market that comprises investors populating all the growth stages of a business from start-up to Unicorn. pre-series A, series A, series B. S/EIS and other tax incentives could be spread across these sectors where the riskier stage you are at the higher the percentage tax incentive is available. The tax incentive structure is already partly there for retail investors but is less systematic for wholesale funds. BBB could take stakes in funds dedicated to each stage of these funding rounds and to some extent dictate and standardise the gradual evolution of documentation for what shareholder agreements look like, what multiples are paid as you move in a successful business from A to B to C.

Question 10: Are the existing accountability measures around the secondary growth and competitiveness objective adequate?

Problem 10: The accountability measures do not capture innovation and development. As an example, as published by the PRA[2], Foundation 2 – Adopting effective regulatory processes and engagement measures the number of authorisation refusals but does not measure potential applicants that are deterred before applying and the reasons.

Response 10: The PRA needs measures and accountability for both growth that they have supported and opportunities for which they are responsible for stifling. By involving HMT, as proposed in Response 4 above, the PRA can be held accountable for why growth initiatives do not come to fruition. This should include estimates of the scale of opportunities to contribute to the UK economy either created or lost.

Question 11: Are there examples of regulatory policies in other jurisdictions that should be considered by UK regulators to help facilitate the new secondary objective?

Yes, in Guernsey and Gibraltar both adopt

a) minded-to approve authorisations

b) using insurance managers as regulatory first line of defence.

What might the FCA and PRA be able to learn and apply from comparable supervisors in other markets in terms of applying secondary objectives on growth and competitiveness?

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[2] Competitiveness and growth: embedding the PRA's new secondary objective https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-secondary-competitiveness-and-growth-objectives-report-2023-24

A great deal. In essence, what rules a regulator may impose, or enforce, is not enough to determine whether a given market is fit for purpose or fair. The structure of a whole market is the key determinant of whether it delivers fair product to customers, and regulators need to broaden their remit to examine how all the actors in each market behave. It may be that cartel-like markets exist where actual collusion between players is unnecessary, because pricing is already ‘baked into’ the structural barriers to entry and the return demands of the providers of capital that have managed to scale these very high, very expensive, barriers. UK Life Insurance bulk annuity market could be viewed as one such oligopoly.

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