Institute and Faculty of Actuaries

Public Bill Committee: Financial Services and Markets Bill
House of Commons
London
SW1A 0AA

2 November 2022

Call for written evidence: Financial Services and Markets Bill

Response from the Institute and Faculty of Actuaries (IFoA)

1. **Executive Summary:** We are pleased to respond to the call for written evidence on the Financial Services and Markets Bill. The IfoA is supportive of the Bill as an engine for growth and greater competition, ensuring the UK's financial services sector is 'match fit' for the post-Brexit world. Our primary interests in the Bill centre on the Future Regulatory Framework Review, preparing the ground for 'Solvency UK' and Access to Cash. A summary of the IfoA's perspective and recommendations on these areas are as follows:

    A. **For the Future Regulatory Framework review,** the IfoA is supportive of select committees being allocated the resources to manage thorough independent assessments of the fulfilment of policy and regulatory functions. Moreover, we continue to call for strengthened and diverse Financial Conduct Authority (FCA) / Prudential Regulatory Authority (PRA) panels; the inclusion of the net zero target into a regulatory principle; as well as the extension of the cost-benefit analysis (CBA) framework beyond assessment of costs and benefits in order to consider regulatory outcomes.

    B. **On 'Solvency UK'**, we support HMT's underpinning objectives while considering approaches in one key area: the Fundamental Spread methodology. We reiterate our position that the 'revolution' in approach proposed in the consultation is not appropriate.

    C. **On Access to Cash**, we continue to encourage HMT to initiate and deliver a comprehensive transition programme for the general public, to ensure as many people as possible are equipped to use electronic payments for a sustainable future.

2. **About the IfoA:** The IfoA is the UK's only chartered professional body dedicated to educating, developing and regulating actuaries based both in the UK and internationally. The IfoA regulates and represents over 30,000 members worldwide, overseeing their actuarial education at all stages of qualification and development throughout their careers.

3. **The Future Regulatory Framework**: It is the view of the IfoA that the overall system of supervision and macro-prudential policymaking should be under the scrutiny of Parliament. While the Bank of England must remain independent in its monetary policy, macro-prudential policy should not automatically be outside of the remit of scrutiny.

A. We agree with the proposal to add secondary regulatory objectives in relation to economic growth and international competitiveness for both the PRA and FCA. It is clearly in the public interest that the PRA and the FCA continue to meet their existing primary objectives. It is therefore important that any additional secondary objectives do not distract either regulator from meeting their primary objectives.

B. However, the balance between primary and secondary objectives, and which should predominate at times is a political decision, which should reside with Parliament and the Government. It is crucial that greater regulatory responsibility should be balanced with effective policy input and appropriate scrutiny and accountability.

C. We maintain our long-standing support of proposed measures to strengthen the relevant FCA and PRA panels. In particular, we would emphasise the importance of diversity and inclusivity within and across the panels. We believe a strong variation in panellists will give greater insight and will broaden expertise, while improving the quality and robustness of the panels' review processes.

D. Finally, we support proposals that the existing regulatory principle for sustainable growth should be updated to reference the Government's commitment to achieve a net zero economy. Going further, we would also encourage consideration of how environmental sustainability can be incorporated into economic measures which inform policymaking.

4. **'Solvency UK':** The IfoA welcomes HMT's proposals on the future path of Solvency II in the UK. They present a major opportunity to better realign insurance regulation to our post-Brexit economy. As planned, the new UK solvency regime will free up more investment, creating opportunities for growth and wealth creation, while continuing to assure appropriate policyholder protection.

A. By revoking existing EU legislation, the Bill includes provisions that will enable the UK to diverge from Solvency II as foreshadowed in the Solvency II review. The IfoA reiterates our support for HMT's underpinning objectives ambitions for the succeeding Solvency UK, including the need for a prudential regulatory regime which fosters innovation and international competitiveness; enables appropriate policyholder protection/soundness of firm; allows for the facilitation of long-term infrastructure and 'green' investment; as well as enabling the increase in access to new insurers.

B. The IfoA supports broadening the range of assets available to insurance company investment via the Matching Adjustment (MA). An appropriate increase in the availability of MA-eligible assets would provide insurers with a greater range of investment opportunities. There are potential societal benefits should more of these assets be invested in long-term infrastructure development.

C. We do not believe that the 'revolution' in approach proposed in the legislation's initial consultation is appropriate. In our consultation response and accompanying research, we considered how adjustments could be made to the existing Fundamental Spread methodology, in an 'evolution' of the current regime. These seek to address some of the PRA's concerns around risk sensitivity, and to better reflect the characteristics of different asset classes.

5. **Access to Cash:** The IfoA Cashless Society Working Party has examined access to cash issues in the UK and globally. Based on our own research, we believe the Government should implement a transition programme in order to ensure a sustainable future for a society that uses less cash. This approach will empower many of those who remain financially excluded while preventing the need to legislate for further powers and oversight for regulators to oversee cash access, as is planned.

   A. The IfoA would argue that the long-term prospects for physical cash are negative, with its existing decline recently accelerated by the COVID-19 pandemic. Moreover, the progression of digital payments, particularly with plans for a Central Bank Digital Currency, have and will exacerbate the decline of cash to the point of near disappearance.

   B. However, the IfoA recognises that physical cash currently remains the most inclusive means of payment and is therefore closely tied with financial inclusion. A transition programme therefore represents the recognition that it is a matter of when, not if, physical cash is reduced to a marginal method of payment and so, it seeks to ensure as many people as possible who remain heavily dependent on cash are equipped to sign up for and use electronic payments. Without this, such people may be impacted by its growing use-cost, caused by the decline in its use by the general population.

   C. The transition programme could equip financially excluded groups with smartphones and internet access. This would significantly address the 'poverty premium' – the phenomenon that the poorest or most vulnerable in society are finding it harder to access services and as a result may end up being charged more.

Should you wish to discuss any of the points raised in this response, please contact:
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