



Treasury Committee

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Andrew Bailey Esq
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Bank of England
Threadneedle Street
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Copy: Rt Hon. George Osborne MP, Chancellor of the Exchequer

22 January 2016

Dear Mr Bailey,

The Treasury Committee is publishing correspondence with the Chief Executives of RBS, HSBC, Barclays, and the regulators - the FCA and the PRA - concerning IT failures at these banks over the last 12 months. At least three conclusions can be drawn from the exchanges.

On the basis of it, and of expert advice, I have three suggestions:

1. **The banks need greater IT expertise at main Board and subsidiary Board level.** As the FCA itself concluded in its 'Dear Chairman II Exercise' (DECE-II), several of the banks reviewed did not have a designated main Board director overseeing IT risks. There is a lack of IT expertise on the Board and an over-reliance on subcommittees and consultants.
2. **Much greater resources should be put towards modernising, managing and securing banks' IT infrastructures.** This is, of course, a huge job, but the major banks will be at risk until they have managed to simplify their systems to a degree that makes them much easier to manage. They need enough skilled people throughout their IT management structure to enable them to be largely independent of consultants for crucial expertise.
3. **Legal, regulatory, structural and cultural changes are needed to the way that banks manage their cyber security risks.** The assessment of threats needs to be much better co-ordinated between external auditors, the FCA, the PRA and other government bodies, including the security agencies. Currently, no one group seems to be directly responsible for developing a full understanding of the risks carried, both on the conduct and prudential side, by individual banks. A group of this type should now be formed with the primary task of ensuring that the banks develop more robust resilience to protect banking and payment systems. The group should make regular reports on its progress both to the Chancellor and to Parliament. Such a group would require

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leadership with a clear understanding of the risks and vulnerabilities of the IT systems that underpin financial services. 'Co-ordination' between regulators is not enough, as was discovered with the failure of the Tripartite. The head of the PRA may be best suited for the leadership role. Consideration will need to be given to whether the PRA will require override powers to secure adequate co-operation. The PRA currently has the statutory authority to direct the FCA not to take certain actions if it believes that they would threaten the stability of the UK financial system. This may be sufficient for the purpose.

Until these changes – or something like them - are made, the public will remain more exposed than necessary to the risks of banking failures, including delays in paying bills, an inability to obtain access to their own money, and unauthorised access to their accounts. The banks now need clear objectives and targets for improving IT performance, and the regulators need to know that Parliament will expect them to ensure that the objectives and targets are in place. These IT risks and problems are causing a considerable amount of distress and disruption to millions of people and thousands of businesses. The current situation cannot be allowed to continue. IT risks need to be accorded the same status as credit, financial and conduct risk. They are every bit as serious a threat to customers and to overall financial stability. More, and higher quality, investment is probably required.

I have written in similar terms to Tracey McDermott at the FCA. You will no doubt want to discuss this with the Chancellor before responding. I am copying this letter to him.

I will be putting this letter, and your response, in the public domain.

Yours sincerely,

James Kluyz

PP

RT HON ANDREW TYRIE MP
CHAIRMAN, TREASURY SELECT COMMITTEE