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Kevin Hollinrake MP
Co-Chairman of the All-Party Parliamentary
Group on Fair Business Banking
House of Commons
London
SW1A 0AA

Dear Mr Hollinrake,

Thank you for your recent letter, following reports of an interview I gave to *The Mail on Sunday*.

The article which gave rise to the concerns you have expressed, and which unfortunately led to inaccurate echoes in other publications, mischaracterised my view of a very important issue through selective quotation of my remarks. I am grateful for the opportunity to explain the points I actually made.

The interview centred on my concern regarding the relative competitiveness of UK banks globally, and their resultant decline in world standings. This is principally due to the failings and excesses of the banks themselves but has been partly contributed to by the policy environment they endured post-crisis which, while reducing banks' risk to society, has also drastically reduced their profitability. This included the very substantial burden of PPI redress, bank levies, higher corporate taxes for banks, the removal of tax relief on certain costs, the costs of ring-fencing and, more recently, Brexit.

Prior to the crisis we had four banks in the top 20 globally, whereas now we only have one. Two of those four now rank in the top 50.

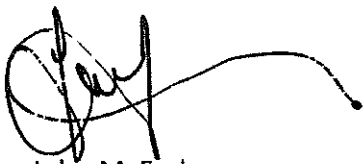
With respect to PPI, let me be clear that I did not refer to legitimate payments to customers who were mis-sold contracts. It is absolutely right that these customers should be properly compensated. I certainly would never wish to suggest otherwise. At Barclays, we have worked hard to ensure it is simple and easy for any customer who has a concern over the sale of their PPI to contact us, and for us to review their claim. As you may know, we have also worked closely with Which? on the launch of their claims tool.

Notwithstanding these legitimate claims, the unfortunate reality is that a very material number of the claims we receive come from claims management companies on behalf of individuals who never had PPI or accounts with Barclays. It is to this group of claimants I was referring in conversation with *The Mail on Sunday*, not to the legitimate victims of PPI mis-selling. We have witnessed sales practices from claims management companies which encourage, or perhaps even confuse, customers to make spurious and speculative claims. I remain of the view that it cannot be right that claims such as these, that have no legitimate basis, are treated in the same manner as genuine claims from genuine customers. It is in this context that I say that the net effect of these types of claims is to drive up the overall cost burden for the UK's banks; and undermine their ability to productively support the economy.

As far as regulation is concerned, I have always been clear that a robust, often world-leading regulatory framework is one of the great strengths of the UK as a place to do business. The question that the Government must consider, as well as policymakers, is the extent to which we are striking the right balance between maintaining our traditional drive for strong, effective regulation, without harming or undermining the UK's competitiveness on the global stage, particularly at a time when it looks like the UK's future access to the EU single market in financial services, an element of the UK's competitive advantage, will be disrupted. As an enormous strategic asset to the overall economy, contributing 10% of total output, £72.1bn in tax, generating a £68.2bn trade surplus and employing 2.3m people, the competitiveness of UK financial services is integral to that goal.

Finally, let me reiterate that my central concern in all of this is to see UK banks like Barclays reverse the relative decline we have seen in our international competitiveness over the last ten years. Ultimately, the driver for this must be banks themselves and of course that can only be achieved by us fulfilling our purpose of supporting our customers and clients. But it should also be helped by the policy environment. That is the fundamental point I expressed to *The Mail on Sunday*.

Sincerely,

A handwritten signature in black ink, appearing to read 'John McFarlane', with a long horizontal flourish extending to the right.

John McFarlane
Chairman