The COVID-19 pandemic has created unprecedented challenges for compliance professionals around the world, including those in the UK. The following is a selection of UK and constituent countries actions as well as news and analysis articles compiled by the Thomson Reuters Regulatory Intelligence editorial staff. The selection includes Regulatory Intelligence and Reuters news coverage. More COVID-19 news and information can be found via the TRRI platform’s search facility.

Additional COVID-19 resources are also available on the Thomson Reuters COVID-19 Resource Center.

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As countries, markets and individuals recover from the last year of a global pandemic, regulatory responses are tapering off. As a result, our Regulatory Intelligence COVID-19 Report for the United Kingdom will transition as well. Going forward, the United Kingdom COVID-19 report will be published following the government's recently announced roadmap out of lockdown.

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1 This COVID-19 Coverage was compiled by Thomson Reuters Regulatory Intelligence editorial staff.
COVID-19 COVERGAGE – UNITED KINGDOM

COVID-19 Legislative Actions

England

The Health Protection (Coronavirus, International Travel) (England) (Amendment) (No. 15) Regulations 2021 add Maldives, Nepal, and Turkey to the list to the list of countries and territories subject to existing enhanced measures.

Scotland

The Health Protection (Coronavirus) (International Travel) (Scotland) Amendment (No. 10) Regulations 2021, among other matters, amend the list of countries and territories subject to additional measures to include The Maldives, Nepal, and Turkey.

Wales

The Health Protection (Coronavirus, International Travel) (Wales) (Amendment) (No. 7) Regulations 2021, among other matters, amend the list of countries and territories subject to additional measures to include The Maldives, Nepal, and Turkey.

The Health Protection (Coronavirus Restrictions) (No. 5) (Wales) (Amendment) (No. 9) Regulations 2021, among other matters, provide that from 3 May 2021 the whole of Wales is fully at Alert Level 3.

Northern Ireland

The Health Protection (Coronavirus, International Travel) (Amendment No. 2) Regulations (Northern Ireland) 2021, among other matters, amend the list of countries and territories subject to additional measures to include The Maldives, Nepal, and Turkey.

The Corporate Insolvency and Governance Act 2020 (Coronavirus) (Change of Expiry Date in section 32(1)) Regulations (Northern Ireland) 2021, amend the date on which the power in section 28 of the Corporate Insolvency and Governance Act 2020 (c. 12), will expire so that regulations made using that power may not be made after 29th April 2022.

Regulators – COVID-19 updates

Prudential Regulatory Authority


The Prudential Regulation Authority (PRA) is a part of the Bank of England has issued an update to its previously published statement providing guidance on the disclosure of exposures in relation to measures applied in response to the COVID-19 pandemic. In its statement, the PRA states that in light of continued reliance on COVID-19 support measures in lending by UK firms, information disclosures regarding these measures continue to be beneficial. As such, firms are recommended to continue using the templates published with the PRA’s previous statement for semi-annual disclosure reference dates up to, and including, December 31, 2021.
HM Treasury


HM Treasury has published a review of the effectiveness of the guidance and reduced reporting measures that have been offered to account preparers in response to the COVID-19 pandemic. Overall, HM Treasury found that preparers consider the guidance and measures offered to be effective at reducing the financial reporting burden for their 2019-20 annual report and account preparation.

Other News and Summaries

UK banks' show emerging operational resilience understanding; senior regulator urges more sophistication

(Regulatory Intelligence) - UK banks' annual reports show an emerging understanding of operational resilience that emphasises business continuity planning and conflates pandemic performance with high operational resilience. Banks have asked regulators for more guidance on what they want operational resilience work to look like. That safe harbour will not be forthcoming, and firms need to work on evolving the sophistication of their approach over time, said Lyndon Nelson, deputy chief executive and executive director, regulatory operations, and supervisory risk specialists at the Prudential Regulation Authority (PRA), in a recent speech.²

"Suddenly the stifling straight-jacket of rules appears more attractive and we see an avalanche of requests for detailed guidance. Should we set up an operational resilience committee? How many important business services should we have? I could go on and on. I would ask those of you who are seeking this guidance to pause and reflect," Nelson told the UK Finance Operational Resilience webinar on May 5.

"The word in the policy documents that is doing a lot of work here is 'sophistication' — yes, we are asking and expecting firms to have done quite a bit by March 31, 2022, but is it ultimately going to be everything that we expect firms to do? No. We understand and expect that tasks such as mapping and testing will evolve and will grow in sophistication over time," he said.

Operational resilience is an outcome, Nelson said. It is not necessarily a compliance task to be implemented against a regulator-supplied check list. Firms should do their own work to analyse their businesses' vulnerabilities and do scenario testing to set out how to prevent or recover from an operational event.

"I would suggest that even if safe harbours were on offer, I would argue to you that this should be of little comfort. Rigid and overly prescribed regimes are just what we need to avoid for a risk that is constantly evolving, and where key parts of it (such as cyber-risk) actually has a conscious opponent seeking to do harm. Having a safe harbour might reduce your cyber insurance premium, but it will not do much to reduce the probability that you suffer from an operational incident," said Nelson.

Pandemic performance is not necessarily down to operational resilience

Operational resilience is the ability to recover from an operational incident in a critical business line within a reasonable time to minimise customer disruption.

² Rachel Wolcott, UK banks' show emerging operational resilience understanding; senior regulator urges more sophistication, Regulatory Intelligence (May 14, 2021) at http://go-ri.tr.com/1vwRzP

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"Ensuring the UK financial sector is operationally resilient is important for consumers, firms and financial markets. It ensures firms and the sector can prevent, adapt, respond to, recover, and learn from operational disruptions. ... Operational disruptions can have many causes including system failures, changes to systems, people, or processes. Some disruptions may be caused by matters outside of a firm's control, such as the pandemic, that lead to the unavailability of access to infrastructure or key people," wrote the Financial Conduct Authority (FCA) in Policy Statement 21/3 (PS21/3), Building operational resilience.

There is a difference between operational resilience and business continuity planning, regulators and consultants have emphasised. Keeping the lights on during the pandemic is not a sign firms do not require much more thinking about operational resilience. The IT outages which occurred last year — for example, when in November the announcement of a successful COVID-19 vaccine led to a spike in trading volumes causing several retail trading platforms to malfunction — were mainly related to well-known IT problems.

UK banks' frequent IT outages signal their continued muddled thinking about operational resilience because they consider it as a risk rather than an outcome to be achieved, consultants said. Firms should be trying to achieve resilience.

At the same time, however, working from home tested financial services firms' resilience to cyber-attacks. The number of cyber incidents at UK banks, asset managers, wholesale brokers and exchanges rose from 21 in 2019 to 55 in 2020, a 161.9% increase, according to FCA data.

The pandemic exposed weaknesses in the resilience of firms' back-office operations, said James Maxfield, a managing director at UK-based Ascendant Strategy. The Financial Times reported that more "than 270 of Wall Street's key trading staff were summoned [in May 2020] for emergency weekend duty to clear a massive backlog of failed trades in March and April, highlighting the stress that built up in the financial system when the coronavirus crisis tore into markets" was a case in point, Maxfield said.

"What the pandemic also highlighted was the heavy reliance on manual tasks (people) across middle and back-office processes. This was evident through the disruption associated with specific countries going into lockdown, limiting staff attending the office and causing a knock-on effect in capacity to support processes such as making margin calls. It was further highlighted by the intervention of regulators to convene weekend working groups, to resolve exceptions and clear backlogs," he wrote in a recent TabbForum opinion piece.

The pandemic was not an operational resilience event as envisioned by regulators, Maxfield said. There was plenty of notice of approaching disruption, which gave firms time to prepare. Industry was able to collaborate to offset the impact and there was a huge amount of government intervention to shore up markets.

"There is no bail-out option if your firm is unable to function because of an operational incident. There is no operator of last resort function in Threadneedle Street. So we must find other tools to use. First of all, firms will seek to be self-reliant, but for many (perhaps all) there will, I hope, be an increasing realisation that investment in collective action is a better way forward for many of the challenges that they face," Nelson said in his speech.

**Evolving approaches**

Regulatory Intelligence has examined a number of the large UK banks' accounts of operational resilience work, set out in their annual reports. These accounts show efforts to slot operational resilience into broader risk management frameworks, which
underscores Nelson's observation they are clamouring for more guidance. Some are implementing operational resilience committees, establishing new operational and resilience risk functions, appointing heads of operational resilience, and defining their understanding of operational resilience. One bank said its board now looks at operational resilience more frequently than carrying out a "set piece once a year".

Descriptions of this work have not, however, gone much deeper than pointing out what an operational resilience issue might be — data management and information protection, cyber, new technology, people, for example. There is little discussion of how banks might go about fulfilling the obligations set out in UK regulators' operational resilience policy statements. Firms continue to confine business continuity planning and operational risk with operational resilience. Work remains to identify critical businesses, set tolerances for disruption, and ensure delivery of their important business services and within their impact tolerances during "severe but plausible scenarios".

Lloyds Banking Group's annual report explicitly mentions the UK regulators' operational resilience guidance publications and refers to setting tolerances and the mapping of business activities. It talks about the operational risks associated with its group change agenda and "incorporating operational resilience into future design thinking". It says it maintains and develops playbooks that guide its response to a range of interruptions from internal and external threats, and evaluates these through scenario-based testing and exercising.

Lloyds goes into some detail on plans to modernise its technology to improve operational resiliency which, as for many banks, will involve migrating systems to the cloud. Cloud is seen as an operational resilience solution, not a possible threat. It is a point Nelson raised in his speech.

"If correctly configured, there are clear resilience benefits to financial institutions from cloud adoption. There are also risks, of course. Some of these stem from the technological complexity, which is compounded by a shortage of relevant skilled resources in financial institutions. This can lead to shortcomings in the configuration of cloud solutions and inadequate oversight. Moreover, the public cloud market is concentrated on a small number of large, unregulated providers whose services are increasingly critical to substitute, which raises questions of potential systemic risk. The challenge for regulation and regulators is to find an appropriate balance between these risks and enabling firms to leverage the benefits of cloud solutions," he said.

Banks' mapping and testing is likely to evolve and "grow in sophistication", Nelson said.

In the meantime, he is expecting to see a compelling gap analysis on his desk by March 31, 2022 which will show banks' "major shortcomings" and areas that "need more work".

**Culture reform: Impact of the pandemic and the FCA finetuning definitions**

(Expert Analysis) - The widespread opinion that firms' cultures performed well during the pandemic is encouraging but needs exploring. After all, people can be feeling pretty self-satisfied just before they walk into a lamppost and risks lie ahead. Firms are making permanent changes to working arrangements with oversight implications and regulators have tweaked their definition of culture and are putting added stress on some of its elements.³

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The COVID-19 pandemic caused vast disruption with mass remote working preventing normal methods of managerial oversight and support. Less obviously, the crisis tested the approach of supporting high-level, principles-based regulation with individual accountability rules and strong corporate cultures, in which the Financial Conduct Authority (FCA) has vested great faith since 2016.

Principles-based regulation is more responsive to market evolution than issuing labyrinthine screeds of low-level rules and allows firms more freedom. The downside is it depends on trusting firms' senior managers and workforce to act in keeping with the principles. As Hector Sants, chief executive of the then regulator the Financial Services Authority, said in 2009 speech: "A principles-based approach does not work with people who have no principles."

That is why the FCA's principles-based approach is buttressed by other measures. The individual responsibility and accountability provisions of the Senior Managers and Certification Regime (SMCR) ensure someone at the top may be penalised if misconduct occurs at a firm. The theory behind instilling good cultures at firms is that people across organisations will not be led to commit misconduct in the first place.

**Surprise result**

The worry last spring was that extended mass remote working would loosen employees' cultural bond with their firm and that, separated from managers and peers, more would commit misconduct such as insider dealing or fraud. Corporate cultures are hard to measure, more on which later, but the only study of COVID-19's impact on them to date — an assessment by the Banking Standards Board (BSB) — suggests they not only held up, they improved.

The BSB has conducted annual surveys of bank employees' evaluation of cultural factors at their firms since 2016. Ratings improved slightly in 2017 then plateaued in 2018 and 2019. The 2020 survey, conducted last September when employees had been remote working for six months and many were forecast to remain so till at least January, broke that pattern.

Averaged out, scores improved across banking, the largest gains being in how employees rated firms for supporting their health and wellbeing, responded to feedback and for leadership. The cumulative increases in the last two were the BSB survey's largest ever.

Dr Roger Miles, a behavioural risk consultant who advises financial services firms and co-founded the Conduct and Culture Academy of the industry body UK Finance, said managers staying in touch via video conferences, which let more people into a meeting, contributed to the improvement.

"In modern finance, the likelihood is that senior managers will not know much about anyone in the firm except a few reports, not even about members of the teams those reports lead," Miles said. "Zooming brought teams into close contact with senior management and has drawn a lot of reticent senior managers out of their glass cells to engage with people by dropping in on Zoom meetings."

With the pandemic easing, many firms including HSBC, Standard Chartered and Lloyds Bank trialling various forms of split office-home working, which coincidentally lets them cut expensive office space. Surveys suggest hybrid working would be popular with staff but unless firms implement it thoughtfully, remote workers' engagement, which feeds into culture, could be damaged.

"Good communication is crucial to ensure staff engagement levels don't drop off in home or hybrid working models," said Claire McCartney, senior resourcing and inclusion adviser.
at the Chartered Institute for Personnel and Development. "Employers need to make it clear that communication is the collective responsibility of all team members and must be more intentional in this new context, as casual conversations are likely to be much less frequent."

One problem for firms trying to evaluate the cultural impact of implementing hybrid working is that it is debatable whether an abstract like culture can be measured. A recent FCA Insight essay, 'Corporate Culture- Grasping the Ungraspable,' advised firms to avoid metrics and use assessments based on interrogation, interpretation and understanding instead.

'Describing the culture in terms of a set of predetermined and presumptive measures sets limitations on our ability to understand the real multivariate complexity of an organisation and what is needed to improve its governance and effectiveness,' the essay's authors said.

Furthermore, the FCA has adjusted its definition of culture to say more about its expectations. Culture was described in 2016, as 'the typical, habitual behaviours and mindsets that characterise a particular organisation.' The FCA's 2018 'Approach to Supervision' document fleshed this out by listing four main drivers of culture: 'leadership, purpose, governance and approach to managing and rewarding employees.'

The FCA's 2020-2021 Business Plan and a 2020 update to its culture and governance webpage changed the order. Purpose, which the FCA defines as "what a firm is trying to achieve — the definition of what constitutes success", became the first driver. Underlining the shift, last March the FCA published discussion paper DP20/1, a collection of essays on driving purposeful cultures. DP20/1's introduction said the common characteristic of "healthy cultures" was being "purposeful and safe".

**Social utility**

"The FCA expects firms to develop more purposeful cultures, to be about more than delivering shareholder dividends," Miles said. "It says they should view themselves as a kind of social utility, like a water company but providing credit."

Last November, a speech by Jonathan Davidson, then FCA director of supervision, expanded the "healthy culture" definition to "healthy cultures are purposeful, diverse, safe and inclusive."

Regulators have long said diversity and inclusion are integral to culture but have become more forceful over the last year. FCA chief executive Nikhil Rathi recently warned it will be tough on firms that lack diversity and an inclusive, 'speak up' culture, and that it will add a diversity and inclusion question to the Five Conduct Questions.

An example of this attitude is the Bank of England's newly-updated Money Markets Code, which expects firms to promote the development of diverse and inclusive workforces internally and through their market activities. Chapter 8.3, which backs home and hybrid working provided effective systems and controls are in place, says such arrangements can benefit diversity and inclusion.

Unfortunately, they can also exclude people, especially women with family care responsibilities, from the interaction and opportunities office workers enjoy. Firms should plan how to mitigate inclusion risks that may arise from adopting hybrid working, McCartney said.

"Office for National Statistics research shows that home workers are less likely to be promoted than those going into their workplace more regularly," McCartney said.
"Organisations must ensure ongoing access to development and career conversations for all employees – and a fair allocation of work and opportunities."

**Black mark?**

That touches on a black mark against the sector's handling of the pandemic. Good cultures do not cause overwork but that has been a common complaint. As Jonny Frostick, an HSBC regulatory data manager who had a heart attack, told Bloomberg earlier this month, remote working has obliterated the work-life division and left people isolated.

"I don't think this should reflect badly on [HSBC]," Frostick said. "I think it's fairly consistent across the industry."

**Bank of England does not see COVID bankruptcy wave - Haldane**

The Bank of England does not expect to see a wave of bankruptcies among British firms when the government ends its coronavirus emergency support for the economy, BoE Chief Economist Andy Haldane said on Friday.¹

Many debts racked up recently by companies are spread over long durations "which increases the chances of them being able to be paid back and therefore bankruptcy is not picking up very much from current relatively subdued levels," Haldane said.

"But ultimately there are risks around that and we'll need to track them through," he said in a presentation to businesses, a day after the BoE sharply raised its forecasts for British economic growth in 2021.

Data published last week showed company insolvencies in England and Wales fell to their lowest level in more than 30 years in early 2021 as the government's support helped businesses to ward off bankruptcy.

Haldane also said there were "significant risks" that inflation could come in either above or below the BoE's latest forecasts. These predict inflation will be close to its 2% target in two to three years' time, after an initial overshoot as the economy recovers from the pandemic.

"Currently we see those (risks) as being broadly symmetric, but they're big on both sides and there's no escaping that given where we are economically right now," Haldane said.

BoE Deputy Governor Ben Broadbent, speaking alongside Haldane, said policymakers were less likely to loosen policy than they thought three months ago.

"The bias toward easing that we might have had is less pronounced," he said.

Broadbent highlighted a change in the BoE Monetary Policy Committee minutes, which on Thursday stated: "The MPC would continue to monitor the situation closely and would take whatever action was necessary to achieve its remit."

In March that passage had read: "If the outlook for inflation weakened, the Committee stood ready to take whatever additional action was necessary to achieve its remit."

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“That gives you an idea of how some of the downside risks - although they are still there - have diminished,” Broadbent said.

**BoE Deputy Governor Broadbent forecasts consecutive quarters of rapid growth - Telegraph**

Bank of England Deputy Governor Ben Broadbent has forecast consecutive quarters of rapid growth but also warned that inflation will prove less predictable, according to an interview with the Telegraph newspaper.\(^5\)

It may be too soon to call a "roaring twenties" scenario, but it certainly means "very rapid growth at least over the next couple of quarters" particularly as the economy will be boosted by people simply saving less, Broadbent said in remarks published Saturday evening in the Telegraph newspaper.

Broadbent said in the interview that there has been "less of a disinflationary effect" as households have also switched spending into other areas.

"The price rises for those hitting capacity limits are going to be bigger than the falls in prices for those seeing falls in demand", he told the newspaper.

"When you get the shift in demand, you're going to run into bottlenecks in some areas, particularly in those areas where supply, too, has been hit for a particular reason", he added.

Broadbent said there was room for more quantitative easing if needed, but added that "the tool box" was less important than "the primary question of what you want to do with the stance of monetary policy".

The Bank of England said last month that Britain's economic recovery was gathering pace thanks to the speed of COVID-19 vaccinations, but its policymakers were split over the prospects for longer-term improvement. read more

Broadbent said in February that the Bank of England would need significant news to alter the pace of its purchases of British government bonds, which were part of its response to the COVID-19 pandemic.

**UK inflation edges up as COVID price hit begins to ease**

British inflation picked up in March as global oil prices rose and retailers scaled back their COVID-driven discounts, and it is expected to keep climbing as the economy reopens from lockdown.\(^6\)

Consumer price inflation rose to 0.7% in March after dipping to just 0.4% in February, slightly below the average forecast of 0.8% in a Reuters poll of economists, according to official figures published on Wednesday.

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"The rate of inflation increased with petrol prices rising and clothes recovering from the falls seen in February," Office for National Statistics official Jonathan Athow said.

British inflation is forecast to rise in the coming months, due to an increase in regulated household energy bills in April, higher global oil prices and comparisons with prices a year ago when COVID lockowns caused demand to slump.

Fuel prices in March showed their biggest annual increase since January 2020. Clothing and footwear prices rose by 1.6% on the month after store closures caused by lockdown rules had caused discounting in February, the biggest increase since 2017 for the time of year. Clothing and footwear prices were still 3.9% lower than a year before, and food prices were 1.4% down.

The Bank of England forecast in February that inflation would reach 1.9% by the end of 2021 but many economists now expect it will exceed its 2% target before then.

In the medium term, the BoE sees less upward pressure on inflation because of weakness in the job market, which it expects to persist even after the economy returns to its pre-pandemic size which it has forecast will happen early next year.

"Unlike the U.S., where we expect inflation to be relatively sticky above 2%, we think the UK story is likely to be less exciting. Partly this is because we think the pent-up demand story may be less pronounced than in the States," James Smith, an economist with ING, said.

Financial markets see about a 50% chance of a quarter-point increase in interest rates by the Bank of England by the end of next year, but many economists think it could take longer for the BoE to move.

"We believe the Bank of England is most likely to hold off from acting throughout 2021 but there is clearly a growing possibility that the Bank could tighten monetary policy in 2022 - although at the moment, early-2023 seems more likely," Howard Archer, an economist with EY Item Club, said.

Paul Dales at Capital Economics said 2025 was his bet for a first rate hike.

BoE Chief Economist Andy Haldane in February likened inflation to a "tiger" that could be roused easily. But his view is not widely shared by other members of the Monetary Policy Committee, from which he will step down in June.

Wednesday's data did show some signs of inflation pressure in the pipeline.

The ONS said prices charged by manufacturers rose by 1.9% in the year to March, the highest in nearly two years, and the prices they paid for their inputs jumped by almost 5.9%, the most since September 2018.

**British lawmakers check on how banks are treating small businesses during pandemic**
Britain's top banks may face action to make it easier for small businesses to open a bank account, British lawmakers said on Tuesday, after companies complained about lenders as they struggle during the COVID-19 pandemic.7

Mel Stride, the chair of parliament's Treasury Select Committee, said he has written to Natwest, Barclays, Metro Bank, HSBC, Santander, and Lloyds to ask if they have changed their criteria for opening business accounts since the pandemic began.

Lawmakers want to know by May 19 whether waiting times for opening an account have increased, how complaints are handled, and whether lenders are planning to withdraw from the small business market.

"It's critical that these institutions are adapting to the requirements of small and medium sized enterprises as the economy starts to pick up," Stride said in a statement.

"The Committee wants to know more about the state of the business current account market, and whether action needs to be taken to mitigate the difficulties faced by SMEs."

Martin McTague, national vice chair of the Federation of Small Businesses, said in February that a situation where firms are unable to open accounts is extremely damaging to the small business community and the economy.

"The different actors in this space - government, lenders and regulators - need to work together to provide a guaranteed route through which businesses can open accounts," McTague said at the time.

**UK finance lobby urges rules rethink to unlock capital for COVID-19 recovery**

Britain should rethink financial rules to free up capital for economic recovery from the COVID-19 pandemic, TheCityUK lobby said in a report on Wednesday.8

Britain suffered its worst economic downturn in 300 years in 2020 as lockdowns shuttered businesses, though growth is forecast to rebound strongly this year.

Regulators in Britain delayed some new financial rules to give banks breathing space for dealing with customers struggling with the fallout from the pandemic.

Britain no longer has to comply with European Union financial rules since full Brexit on Dec. 31, making it easier to tweak regulations.

TheCityUK, which promotes Britain as a global financial and professional services centre, urged the government and regulators to "demonstrate explicitly" in the short-term how implementing pending regulation would contribute to the UK's economic recovery.

UK regulators should also consult with the financial sector to identify and take forward "proposals to unlock capital" held by banks, insurers, and other financial firms, it recommended.

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"This activity should include engagement with HM Treasury and HM Revenue & Customs to consider whether the cumulative effect of both regulatory and tax policy changes, even if for a temporary period, can maximise the scope for lenders and investors to deploy capital," TheCityUK said.

The Bank of England has already sought to persuade banks to tap some of their capital buffers to ride the COVID-19 crisis.

"However, there is a general consensus that they have been reluctant to do so, in part because they have not yet needed to and in part because there is the potential for unintended consequences if a bank does so," TheCityUK said.

Britain’s insurers have already called for easing of capital rules to unlock 35 billion pounds to invest in climate-friendly projects for economic recovery.

BoE Deputy Governor Sam Woods said last month the ongoing review of insurance solvency rules would not lead to a material drop in capital requirements.