



Treasury Committee

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Andrew Bailey
Governor
Bank of England
via email

22 January 2024

Dear Andrew,

Thank you to you and your colleagues on the Financial Policy Committee for the recent evidence to the Treasury Committee on 10 January 2024 on the latest Financial Stability Report. I would appreciate your response to the following additional questions that Members wished to ask in the session, but did not have the time to:

Artificial intelligence and quantum computing

- What additional risks does Artificial Intelligence pose to financial stability, taking into account (i) its potential impact on speed of transactions (ii) herding and (iii) potential problems arising from “hallucinations”?
- How can the operation of machine learning-generated algorithms, which may be biased or discriminatory, be made more transparent?
- What are the risks arising to financial stability from a so-called ‘Quantum Apocalypse’ and quantum computing generally; and how is the Bank mitigating them?
- What additional work on Artificial Intelligence and quantum computing is the Bank intending to do in 2024?

Flooding

- How likely is it that flooding could significantly increase the risk of financial instability in the UK in the future, including through homes losing value and becoming uninsurable?
- How critical is Flood Re in mitigating the losses from flooding and reducing any risks of financial instability?
- Is it a realistic prospect that Flood Re ends in 2039, and the market be able to take on the provision of insurance for those properties?

Liability Driven Investment (LDI)

- In the Annex to the latest [Financial Stability Report](#), there are recommendations, still outstanding, that the Financial Policy Committee made in response to the LDI episode. When will these be fully implemented?
- Has progress been slower than you would like on the LDI recommendations? What are the main obstacles to implementation?

Sustainability of debt

- Public debt as a proportion of GDP is close to 100 per cent in the UK. How does this impact on financial instability risks?
- To what extent do high levels of public debt worldwide, in part due to the Covid-19 pandemic, add to global financial instability risks?

Assessment of Financial Policy Committee (FPC)

- The FPC has now been in existence for over 10 years. What is your assessment of how the first decade had gone?
- What are the FPC's successes and failures; and what impact have the measures the FPC has taken since inception had on financial stability in the UK and the UK's economic growth

We would be grateful for a response by **9 February 2024**. In line with our usual practice, this letter, and your reply, will be published by the Committee.

With best wishes,



Harriett Baldwin MP
Chair of the Treasury Committee