UK FINANCE

# HOW BANKING AND FINANCE CAN HELP DELIVER A HIGH GROWTH ECONOMY

Briefing paper | September 2023

The UK's banking and finance sector accounts for over 8% of GDP, employs over a million people in highly productive, well-paid jobs – over half outside of London and the South East - and contributes tens of billions in tax revenue each year[1].

It also powers the wider economy: from helping family businesses manage cash flow, to financing cutting-edge start-ups and helping millions to purchase their own home dream.

As politicians of all parties focus on higher rates of sustainable and inclusive economic growth, this paper sets out four areas that could unlock tens of billions of new investment, make the UK more internationally competitive and improve access to finance for people and businesses.

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## 1. DELIVERING A PRO-GROWTH FRAMEWORK FOR REGULATION AND TAX

The Financial Services and Markets Act 2023 has given financial regulators a secondary objective to promote economic growth and international competitiveness, signalling that the UK is open to the world and giving businesses confidence to invest.

This intent must become real regulatory change. From rules on prudential capital requirements to the definition of capital, many UK regulations are more onerous than those in the EU and USA. New regulations add significant burdens: the FCA's new Consumer Duty alone is estimated to incur up to £2.4bn in direct costs to industry.

**Financial regulators must now effectively embed the new competitiveness objective into their approach**. They should now measure and report the overall burden of regulation and costs imposed on firms; the costs of diverging from international standards and regulations used in other countries - to help ensure the UK takes full advantage of its freedoms outside the EU; and the costs, volume and timescales of imposing new regulatory change.

**Consumer groups and the firms directly affected by financial regulators should also be given the ability to hold regulators to account** for rules that are not working well, alongside HM Treasury.

Taxation is also a key factor in where businesses choose to base themselves. To remain internationally competitive, the Government must ensure that a typical bank's total tax rate is comparable to other financial centres. Present total tax rates are much higher than in Dublin or New York.

Bank specific taxes and their complexity deter banks from growing. Removing these taxes and **publishing a tax roadmap for financial services** would make the UK more attractive for foreign banks.

## 2. IMPROVING ACCESS TO FINANCE, ESPECIALLY FOR SMES AND BUSINESSES OUTSIDE OF LONDON

Excessive capital requirements directly reduce bank lending and contribute to UK investment rates being much lower than the OECD average. They have the greatest effect on smaller banks, non-bank lenders and fintechs, who spur competition and lend to SMEs and businesses outside London.

**Removing cliff-edge thresholds for small banks' required capital and linking this to existing ringfencing regulations** would boost competition and could unlock £42 billion of new UK business investment[2].

**The Bank of England should also maintain the SME supporting factor in its approach to Basel 3.1** to prevent credit becoming more expensive and less available for SMEs.

## 3. UNLOCKING NEW GROWTH AND INVESTMENT OPPORTUNITIES FROM THE UK'S CAPITAL MARKETS

The Government is making important improvements to our capital markets regime. However, broader structural reforms, such as tapping pension capital through the Mansion House Compact, are needed to ensure they remain internationally competitive and can support the latest start-ups.

UK companies raise less capital at every funding stage than US firms and have a lower five-year survival rate than in other major European countries. To create a stronger pipeline of scale-ups, the **EIS and the SEIS early stage investor tax breaks should be extended in scope** and reformed to remove cliff-edges that reduce incentives to scale domestically. **Companies should have to repay public subsidies if they list outside of the UK after a defined time period**, creating greater incentives to stay and grow in the UK.

UK households have less of a stake in high growth sectors than those in France and the USA, holding only 11% of their financial assets in equity, compared to 36% and 23%. **Removing the 0.5% share purchase stamp duty** and **reviewing the ISA framework to incentivise investment in UK equities** would deepen domestic capital pools, whilst **financial education** could empower people to become investors.

## 4. SEIZING THE OPPORTUNITIES OF NET ZERO

Capital is available to support Net Zero but a lack of both investible projects and confidence is holding back this transition, as the failure to secure offshore wind projects in the latest energy auction showed.

To boost investor confidence, **the Government must provide sector by sector Net Zero investment roadmaps**, which set out policy, spending and regulatory interventions in detail. This should include a comprehensive plan on how to green the UK's housing stock.

The Government must track public and private financial flows, so we know where private finance is being leveraged. It must also **fulfil existing commitments on sustainable finance regulation**, helping the sector align behind Net Zero. These include the Sustainability Disclosure Requirements (SDR) regime, the work of the Transition Plan Taskforce and future UK Green Taxonomy.

The Government should **adjust how public subsidy and blended finance are used in financing programmes** – reforming processes, for example, by introducing two step tariffs for infrastructure projects – and increasing public funders risk-taking capacity, such as by expanding the UK Infrastructure Bank's loan books.

### REFERENCES:


[1] GVA estimates for 2021 from Financial services: contribution to the UK economy, House of Commons library; job estimates for 2021 from Enabling Growth 2023, The City UK

[2] EY report https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/topics/financial-services/ey-mrel-financial-implications-mid-size-challenger-banks.pdf



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