UK Finance

Invest 2035: The UK's Modern Industrial Strategy

UK Finance Response

November | 2024

UK Finance response to Department for Business and Trade consultation on Invest 2035: The UK's Modern Industrial Strategy

UK Finance is the collective voice for the banking and finance industry. Representing 300 firms across the sector, we are a centre of trust, expertise and collaboration at the heart of financial services, championing a thriving sector and building a better society.

We are pleased to respond to the government's consultation on its *Invest 2035: The UK's Modern Industrial Strategy* Green Paper (referred to hereafter as 'Green Paper'). Our sector is committed to achieving the government's growth mission, and we are keen to play a leading role in helping to shape and deliver the Industrial Strategy and accompanying Financial Services Growth and Competitiveness Strategy.

Financial services are already an enabler of growth

Financial services are a UK success story and vital to our country's prosperity, as the Chancellor emphasised in her Mansion House speech on 14 November. We welcome the government's intention to put our sector at the centre of its plans to increase the UK's economic growth. As the Green Paper notes, '*the UK's financial services sector is one of its greatest assets as an economy*,' with '*a unique, core role to play in delivering growth across the whole economy*.'

The UK is already home to one of the world's largest and most innovative financial sectors, with a reach that spans the globe. Our sector employs over a million people, two-thirds of whom are based outside London. It generated £209 billion of economic output in 2023 (over 9% of the total) and £79 billion of the UK's total tax contribution (over 8.5% of the total), as well as £92.2bn of net exports (making it the largest net exporter of financial services globally).[1]

In addition to this direct contribution, UK financial services catalyse growth and foster inclusion across the wider economy, reinforcing priorities like the Net Zero transition, regional growth, and economic resilience. Our sector plays a critical role in enabling individuals, families and businesses of all sizes to invest in their futures and realise their ambitions.

Retail banks provide essential credit to small and medium-sized enterprises (SMEs) throughout the country, enabling them to manage cash flow, expand operations, and navigate economic challenges. Through their mortgage lending activity, these banks support housing markets across the UK, helping people to own their own homes and enabling investment in the private rented sector. Building societies play a similarly important role in support of consumers and SMEs, delivering a valuable source of finance to the mortgage and SME lending markets.

Larger retail banks and investment banks offer mid-sized firms and established multinationals a range of sophisticated services, such as risk management and tailored investment strategies, reinforcing the financial stability and sustainability of these businesses as they grow.

Investment banks facilitate the UK's position as a global centre for capital markets activity, and support corporate growth and transformation through services including M&A and strategic advisory services – all of which enables businesses to expand, consolidate and compete more effectively in a global market. By actively participating in the UK's capital markets, they facilitate essential funding for a wide range of infrastructure, green energy and wider regional regeneration projects, supporting innovation and unlocking economic opportunities that create jobs and strengthen local economies.

[1] City Stats Fact Sheet, The City of London Corporation, November 2024

Additionally, the payments services that banks, global payments companies and fintech firms offer to UK consumers and businesses fuel innovation and facilitate enterprise across the UK. From streamlining day-to-day transactions to enabling cross-border trade, they help businesses operate efficiently, reach new customers and expand into new markets, and drive growth in the digital economy.

In combination, our members give companies of all sizes the means to innovate, grow and contribute to the economy on both a regional and national scale, and the means for consumers to actively contribute to growth through their own participation in the economy. Together, they support prosperity and resilience across every industry sector and community.

Building on these important roles, the Green Paper identifies areas in which government believes partnership with the sector could drive additional economic growth: '*to export to new and growing markets, make the UK the location of choice for green business to finance the Net Zero transition, and take advantage of trends in digitisation, to attract the firms of the future and increase productivity across the economy*'. We agree there is further growth potential in these areas.

The growth-driving potential of our sector faces constraints

However, the ability of our sector to support growth, and grasp new opportunities, faces significant constraints. In particular, the existing regulatory framework for UK financial services is highly complex, and insufficiently stable and predictable, encouraging excessive risk-aversion.

Following the global financial crisis, there was an understandable move to shore up the stability of individual banks and the wider financial system, and to reduce, or even eliminate, risks for consumers and SMEs. Over the last fifteen years, there have been reforms to the structure of banks (e.g. ring-fencing and resolution), their capital and liquidity requirements (e.g. Basel III standards, countercyclical capital buffer, leverage ratio, liquidity coverage ratio) and the conduct of their employees (e.g. senior managers and certification regime).

The regulatory framework for financial services has become more complicated over this period. Multiple regulators and public bodies now have remits that touch the sector but no single body has overarching responsibility.[2] Only two of these regulators – the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) – have been given a new (and welcome) secondary competitiveness and growth objective, limiting its effectiveness.

Regulatory complexity and uncertainty is increased by the way in which the Financial Ombudsman Service (FOS) sets precedents with which firms must adhere; the FOS has become a de facto rule-maker but without the necessary processes or safeguards such as formal consultation. Furthermore, a move towards outcomes-based regulation under the FCA's Consumer Duty, because of its subjective nature, causes further uncertainty and risk-aversion.

In addition, the financial service sector has had to adapt to revised payment services and e-money regulation, along with significant new anti-fraud measures such as Strong Customer Authentication and rules targeting and compensating the victims of Authorised Push Payment fraud.

The outcome of this regulatory complexity and layering has been firms having to comply with increasingly complex and costly rules relative to other competing financial centres, a diversion of firms' resources away from growth-driving investment, and a cumulative reduction in their risk appetite.

[2] These include the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA), Payment Systems Regulator (PSR), Financial Ombudsman Service (FOS), Financial Reporting Council (FRC), Competition and Markets Authority (CMA), Lending Standards Board (LSB), Information Commissioner's Office (ICO) and The Pensions Regulator (TPR).

The Chancellor of the Exchequer recognized in her Mansion House speech on 14 November that the focus of the UK's regulatory system on eliminating risk has "gone too far", and "has had unintended consequences which we must now address."[3] UK Finance was greatly encouraged by the Chancellor's commitment to "rebalance our approach and take forward the next stage of reforms needed to drive growth, competitiveness and investments". We welcome the range of reforms she outlined to this end, including new pro-growth remit letters for the financial services regulators, a review of how the Financial Ombudsman Services could be modernised, and the intention to replace the Certification Regime.

Along with the regulatory headwinds that the government is now seeking to address through the Chancellor's Mansion House reform agenda, the way in which the UK's banking sector is taxed erodes its international competitiveness.

Each year, UK Finance commissions PwC to calculate and compare the total tax rate (TTR) for a model corporate and investment bank operating in the UK versus other leading global financial centres. The most recent of these reports, published in October 2024, shows that the UK's total tax rate (TTR) for 2024 and 2025 is 45.8 per cent – notably higher than New York (27.9 per cent) and Frankfurt (38.6 per cent). This disparity is principally due to the continued operation of the bank corporation tax surcharge and the bank levy, and has a bearing on innovation, investment decisions and growth.[4]

Our sector's ability to support growth has also been constrained by the lack of a comprehensive policy framework for the Net Zero transition; capital markets that don't support scaling companies as effectively as they must; a payments system held back by insufficient strategic direction, industry involvement in decision-making on key infrastructure investment, and delivery capability; and a talent pool struggling to keep pace with the sector's evolution.

Preconditions to fully unlock the financial services growth engine

The Chancellor's Mansion House reform agenda set out positive steps forward in many of these areas, and the Industrial Strategy and accompanying Financial Services Growth and Competitiveness Strategy are opportunities to build on and ensure the delivery of these measures.

We believe there are six important preconditions to help financial services drive the sustainable, long-term growth that the government wants to deliver over the next decade:

1. Pro-growth regulation that unlocks bank lending to businesses of all sizes

Existing barrier: Complex, uncertain and costly financial regulation has led to a cumulative reduction in UK firms' risk appetite, hindering their lending to businesses that could otherwise support growth, increasing the financial inclusion deficit by reducing access and choice for consumers and businesses seeking finance, and placing the UK at a competitive disadvantage relative to other jurisdictions.

Pre-condition for growth: Less complex and layered regulation, striking a better balance between risk, financial stability and consumer protection that encourages banks to devote more of their resources to growth-driving activities. Embedding the PRA and FCA's secondary competitiveness and growth objective and extending it to other parts of the regulatory landscape, including the PSR, will have an important role to play in this regard. Addressing the quasi-policymaking role of the FOS will bring more regulatory certainty for financial services firms. Further reform of capital requirements for banks of all sizes, so they better reflect the level of risk in the system following post-GFC regulatory reforms, will help to boost lending to UK businesses and facilitate regional growth.

[3] Chancellor of the Exchequer's speech to Mansion House, HM Treasury, 14 November 2024
[4] *2024 Total Tax Contribution of the UK banking sector*, publication prepared by PwC for UK Finance, October 2024

2. A clear and stable policy environment that makes the green transition more investible

Existing barrier: The lack of a long-term policy framework for the transition to Net Zero, and a complex landscape of public finance institutions, has created challenges for investors with capital to invest but insufficient clarity about where, when and with whom opportunities will arise.

Pre-condition for growth: Clear plans for the Net Zero transition, including expectations and timelines in key areas like clean energy infrastructure, retrofitting homes and reducing SMEs' emissions, giving investors more confidence to deploy their capital. In addition to clear roadmaps and timings on green finance, more clarity on regulatory reforms such as the green taxonomy and disclosure requirements will support this agenda. Co-ordination between national and devolved governments involved in investment projects, a more streamlined planning system and a coherent set of public investment bodies, will help to crowd-in private investments.

3. Reform of the planning system to unlock housebuilding

Existing barrier: Too few homes have been built over recent decades, including in social and affordable tenures, largely due to uncertain housing policy compounded by an overly complex planning system.

Pre-condition for growth: Reform of the existing planning system to simplify it and make it more rules-based, thereby making it easier for developers to build new homes. This will create jobs and strengthen the home-building sector while ensuring that new homes meet buyers' needs. Furthermore, a coherent multi-tenure housing strategy which integrates with other key government initiatives including the Industrial Strategy and plans for the Net Zero transition will help to provide a single strategic framework for growth.

4. Capital markets that ensure funding for companies at every stage of their growth

Existing barrier: The UK's 'growth escalator' – the sources of funding used by companies as they scale – isn't working as well as it could, with early-stage companies often experiencing a funding cliff-edge as they grow, and high-growth companies choosing to list outside the UK.

Pre-condition for growth: Well-functioning capital markets that ensure UK companies can access the investment they need when moving through launch, early stage and scale-up to public markets. Unlocking new sources of capital such as UK pension funds, and ensuring proportionate regulation of listed companies, will provide the conditions for a healthy pipeline of growth companies. A UK plan for growth that joins-up various government initiatives such as capital markets modernisation, pensions reform, and state-backed investment vehicles like the National Wealth Fund and British Business Bank. Capital market efficiency would be further enhanced by making the UK a global hub for digitised securities and tokenisation.

5. A framework for money and payments that supports innovation and enterprise

Existing barrier: Insufficient capabilities to change and modernise the UK's payment system in ways that would drive economic growth, exacerbated by complex and fragmented regulatory oversight, an overly prescriptive regulatory approach – including in areas such as account-to-account payments – weak delivery capacity for major infrastructure upgrades, and new forms of digital money.

Pre-condition for growth: A more coherent and streamlined framework for money and payments, guided by HM Treasury, which the government's National Payments Vision (NPV) will help to deliver. This will provide a clearer focus on consumer outcomes, ensuring a level playing field for market participants, and encouraging investment and innovation. The creation of a Payments Vision Delivery Committee, as proposed in the NPV, is welcome, and we look forward to hearing more about how industry can support this work. Decisions on key infrastructure projects should be made jointly by industry and public authorities under the Bank of England's leadership. This would

improve coordination and delivery of upgrades to existing infrastructure (e.g. Faster Payments) and future projects (e.g. a Regulated Liability Network with new functionality, such as programmability, not currently available in the market. Industry will begin work shortly on a commercially sustainable future framework for Open Banking and will engage the FCA on their role as lead regulator for Open Banking).

6. A workforce equipped to meet the rapidly evolving needs of the financial sector

Existing barrier: Companies held back by a lack of ready access to the skills they need to cater for the ongoing digitisation of their operations, the adoption of new technologies such as AI and the delivery of the net zero transition.

Pre-condition for growth: A talent pool in the UK that meets the evolving needs of financial services companies, and key industries it supports, supported by a skills strategy co-created by the sector and Skills England. Employers should be able to use the new Growth and Skills Levy flexibly, to tailor training, development and reskilling of their workforces to their specific needs. Growth of financial hubs around the UK should be supported by well-coordinated skills policies across national, devolved and local governments.

Answers to Green Paper consultation questions

Sector Methodology

1. How should the UK government identify the most important subsectors for delivering our objectives?

The methodology set out in the Green Paper is that the government will use their existing analysis supplemented by evidence from this consultation as well as further evidence-gathering and use of wider methodologies. This seems to be a sensible approach.

Building the UK's Industrial Strategy on strong financial and capital markets is the most effective way of mobilising the huge amounts of private capital required alongside state investment and harnessing the risk management and discipline of private markets.

To support a market-based approach, further evidence should be gathered by government through direct engagement with trade associations and other business representative organisations. UK Finance and other industry bodies can provide expert insight and holistic views of specific sectors, so are well-placed to help identify existing and emerging sub-sectors with the potential to be globally competitive on which the Industrial Strategy should focus.

2. How should the UK government account for emerging sectors and technologies for which conventional data sources are less appropriate?

No response.

3. How should the UK government incorporate foundational sectors and value chains into this analysis?

There are foundational sectors and technologies on which the growth-driving sectors prioritised by the Industrial Strategy are all likely to have at least some dependency – for example, cloud computing capabilities. It seems sensible to ensure a consistent and joined-up approach to these across all the Sector Plans.

As the Green Paper notes, UK financial services have a unique, core role to play in delivering growth across the whole economy. We believe the sector itself should be considered 'foundational' in the context of the Industrial Strategy, as the products and services it collectively provides (e.g., banking facilities, lending and risk management) and the infrastructure it operates, facilitates or participate in (e.g., capital markets and payments systems) are a critical input for most if not all businesses across the economy.

Similarly, there is an overlap between the 'digital and technologies' sector and the financial services sector – through, for example, financial technology. This underlines the importance of ensuring that the individual Sector Plans, while focused on encouraging more growth in each individual sector, appropriately dovetail with and reinforce one another where there are dependencies to be addressed or synergies that could be seized to support further growth.

Sectors

4. What are the most important subsectors and technologies that the UK government should focus on and why?

To identify the most critical subsectors in financial services, we think the government should focus on those with the broadest economic reach and greatest potential to deliver sustained growth, while aligning with objectives like net-zero, regional development, economic security and resilience.

In these respects, we think banking should be considered an important sub-sector of financial services, and comment on the role of this sub-sector below, along with sustainable finance and fintech, both of which are highlighted in the Green Paper. In addition, we comment on payments and tokenisation – two interrelated sub-sectors of financial services, straddling fintechs and established financial institutions, that we think the Industrial Strategy should focus on given the growth-driving benefits they could bring to the economy through both retail and wholesale financial services – and also Artificial Intelligence (AI).

Banking

Domestic retail banks are a vital source of credit for SMEs, reinforcing their resilience and enabling them to invest in their growth. The mortgage lending of these banks supports housing markets across the UK, both by facilitating home ownerships and ensuring investment in the private rented sector, which strengthens communities and regional economies. Building societies play a similarly important role in support of consumers, helping families and individuals buy a home as well as helping people build their financial resilience.

Amid growing geopolitical volatility and economic uncertainty, the stability of domestic banks is essential. Their rigorous regulatory standards ensure a balanced approach to commercial growth and customer protection, strengthening their ability to support high-growth sectors reliably, even in challenging economic conditions.

In addition, larger retail banks and investment banks offer mid-sized firms and established multinationals a range of sophisticated services such as risk management and tailored investment strategies, reinforcing their financial stability and sustainability as they grow.

Investment banks support corporate growth and transformation through their M&A and strategic advisory services as well as the role they play as ‘systematic internalisers,’[5] as part of the UK’s world leading secondary market infrastructure, which enables businesses to expand, consolidate and compete more effectively in a global market. By actively participating in the UK’s capital markets, they facilitate essential funding for a wide range of infrastructure, green energy and wider regional regeneration projects, fostering innovation and unlocking economic opportunities that create jobs and strengthen local economies.

Together, investment and retail banks, including building societies and credit unions, support growth across all areas of the UK economy, from local businesses to large-scale projects, providing the financial tools and strategic guidance necessary to foster prosperity and resilience on both a national and regional level.

The Green Paper also notes that the UK is home to fast-growing and valuable areas such as sustainable finance and fintech. These are two subsectors that we think the UK government should encourage further through the Industrial Strategy and Financial Services Growth and Competitiveness Strategy.

Sustainable Finance

The transition to a low-carbon economy offers vast opportunities for encouraging growth driving investment, and our sector stands ready to support this important objective. Around 45 of UK Finance’s members are signatories to the Glasgow Financial Alliance for Net Zero (GFANZ) – a group of global banks with some $74tn in assets, which are committed to aligning their portfolios with the Net Zero economy.

Through the deployment of capital, our sector will play a leading role in the UK’s ongoing shift to clean energy sources. In doing so, it will make an important contribution to economic growth around the country. We therefore welcome the inclusion of clean energy industries as another of

[5] A systematic internaliser is a firm that act a liquidity providers by deals on its own account by executing client orders outside of a regulated markets, multilateral trading facility or organised trading facility.

the Industrial Strategy's areas of focus, alongside financial services, given the strong growth-driving synergy between the two sectors.

Fintech

The UK's financial technology sub-sector – a vibrant ecosystem comprising new and established financial services companies – became an international trailblazer in the aftermath of the global financial crisis, supported by such innovations as the FCA's regulatory sandbox. The UK is now one of the pre-eminent global hubs for fintech, securing a level of investment that is second only to the US globally, and greater than the rest of all European countries combined.[6]

Importantly, financial technology has stoked innovation, competition and inclusion on both the retail and wholesale side of UK financial services. It has, for example, led to more choice in markets such as personal and business current accounts, and business lending; new Open Banking-powered services that are helping individual consumers to build financial resilience through financial management and budgeting; and increased access to capital markets, by facilitating the involvement of smaller and retail investors.

Payments

An efficient and resilient payments system enables money to flow rapidly and securely around the economy, allowing businesses to flourish and continue to invest in their own growth without undue friction. Our UK Payments Market report showed that there were 48 billion payments made in 2023, with card payments accounting for 61 per cent of the total; cash payments returned to a long-run declining trend, accounting for 12 per cent, and account-to-account Faster Payments and other remote banking representing 10 per cent.[7]

The payments sector is at the forefront of fintech innovation. We welcome the government's National Payments Vision, and its ambition to create a trusted, world-leading payments ecosystem delivered on next generation technology. By supporting payments innovation, the government can spur the ongoing development of cutting-edge financial technologies that enhance the UK's status as a global fintech hub. The UK's payments ecosystem is strong but at risk of being overtaken given the pace of innovation in this areas in other jurisdictions, so investing in its development – such as through the G20 Roadmap for Cross-Border Payments – strengthens the UK's position in international markets, ensuring it remains a leader in financial services amid growing competition.

There has been a long-running shift towards digital payments, as consumers and business increasingly organise their lives and operations through digital channels. This is likely to continue as digital innovation and technology unlocks new functionalities for money and payments. Payments innovation is also critical for financial inclusion, as it has the power to bring more people into the financial system. Digital and real-time payment solutions can make financial services more accessible and affordable, addressing issues of exclusion and inequality.

A huge amount of work and investment is taking place to ensure that the UK's existing payments infrastructure keeps pace with these changes. The National Payments Vision provides clarity on next steps for payment infrastructure, concluding that a more agile and flexible approach is required than through the (currently stalled) New Payments Architecture (NPA) upgrade of the Faster Payments System. While short term upgrades are required to Faster Payments, we look forward to working with government and the Bank of England on longer-term requirements for our real time payments in the UK.

UK Finance has also undertaken work to examine and experiment with ideas like the Regulated Liability Network (RLN) concept. This initiative is exploring the potential of tokenised commercial bank money for the UK's financial services industry, with a focus on the role of money in society,

[6] H1 2024 FinTech Investment Landscape, Innovate Finance, July 2023

[7] UK Payments Market 2024, UK Finance, July 2024

domestic payments and settlement efficiency. Through the project, we are experimenting with a new type of financial market infrastructure that can deliver new capabilities for payments and settlement, including tokenisation and programmability.[8]

By prioritising the payments sector, the UK government can unlock economic potential, secure global leadership, and create a robust, inclusive, and innovative financial ecosystem. It's not just about technology—it's about enabling a thriving, future-ready economy.

Tokenisation

Tokenisation is the process of converting rights to an asset into a digital token on a blockchain or digital ledger. It is an area of technological innovation with transformative potential in financial services, which could enable greater efficiency, transparency, and accessibility in trading various assets, from traditional securities to real estate and commodities.

Among its potential benefits, tokenisation could lower transaction costs, reduce settlement times, and broaden market access for investors, particularly in traditionally illiquid asset classes. This technology could, in time, provide an opportunity to make shares in start-ups, scale-ups and other unlisted equity available to a wider pool of investors, including retail investors – with the potential to enhance the UK's 'growth escalator' sources of funding.

Labour signalled in its 'Financing Growth' policy documents that it wanted to make the UK a global hub for securities tokenisation. We share Labour's ambition in this area and believe it warrants specific attention as part of the Industrial Strategy's Financial Services Growth and Competitiveness Strategy, as a long-term initiative that will support economic growth.

Beyond efficiency gains, we believe there is a broader 'whole of government' discussion needed about the impact of tokenisation. Alongside other transformational technologies, tokenisation has the potential to transform countless consumer, business and government money flows. It could unlock currently untapped areas of economic growth.

As such, UK Finance welcomes the Chancellor's recent announcement, in her Mansion House speech, that the government will launch a pilot to deliver a Digital Gilt, with work due to commence on this initiative in early 2025. The issuance will be a concrete example of the UK's intent to lead the world in tokenisation and act as a market catalyst for the development of securities tokenisation more broadly.[9]

Artificial intelligence

Artificial Intelligence (AI) is a technology shaping the future of the UK economy, which the government should seek to capture the benefits of through its Industrial Strategy. If deployed carefully, AI has the potential to offer great benefits to UK businesses, consumers and society.

These benefits include boosting the efficiency, speed, quality and personalisation of services, as well as wider goals such as increasing access to financial services, tackling fraud and economic crime, reducing systemic banking risks in the UK economy and working towards the transition to net zero. Government should therefore seek to provide the conditions in which firms can take up the opportunities this technology offers, while managing risks effectively.

5. What are the UK's strengths and capabilities in these subsectors?

---

[8] As part of the UK Regulated Liability Network project, UK Finance and 11 of our members, supported by a strong team of vendors, have built a simulation of the foundational RLN platform, capabilities, and functionality to enable programmable payments in commercial bank money across retail and wholesale. See more here: **Regulated Liability Network | UK Finance**
[9] See **Government Debt Issuance pilot: Distributed Ledger Technology**, Written Ministerial Statement from Tulip Siddiq MP, Economic Secretary to the Treasury, 18 November 2024

As the Green Paper notes, '*the UK's financial services sector is one of its greatest assets as an economy*,' with '*a unique, core role to play in delivering growth across the whole economy*.'

The financial services sector as a whole employs over a million people, two-thirds of whom are based outside London. It accounts for over 9 per cent of the UK's total economic output (£209 billion) and over 8.5 per cent of the UK's total tax revenue (£79 billion), and the UK is the largest net exporter of financial services globally (£92.2 billion).[10]

Looking at the UK banking sector specifically, its total tax contribution was £44.8 billion for financial year to the end of March 2024, up from £41 billion the previous year.[11] The total is made up of £24.1 billion in taxes borne, including corporation tax and the bank levy, and £20.7 billion in taxes collected, including income tax and employee national insurance contributions. The sector contributed £10.8 billion in corporation tax (including the bank surcharge) and £24.9 billion in employment taxes. These represent 12.2 per cent and 5.9 per cent respectively of the government's total tax receipts in these areas. The employment tax figure reflects the large number of highly skilled workers the banking industry employs across the UK.[12]

In addition to the direct contribution that UK financial services make it also catalyses growth and foster inclusion across the wider economy, reinforcing priorities like the Net Zero transition, regional growth, and economic resilience. Our sector plays a critical role in enabling individuals, families and businesses of all sizes to invest in their futures and realise their ambitions.

The UK particularly benefits from the strong concentration of well-established and globally respected banking and financial services firms, trading venues and capital markets infrastructure, in terms of both primary and secondary markets.

The UK's mature primary infrastructure includes the London Stock Exchange (LSE) and Aquis which operate primary markets aimed at a wide range of companies ranging from SMEs to mature issuers.

The UK is also is a global hub for secondary market trading across a wide range of asset classes, supported by a diverse market structure (which includes the role that investment banks play as systematic internalisers).

All of this is in addition to a robust ecosystem of related professional and legal services, an appetite for long-term sustainable investment opportunities and a leading insurance market. Our growing green finance sector can also draw upon unique expertise from other sectors, including our academic climate science leadership, strength in some renewable energy and clean growth sectors, and the UK's status as a hub for overseas development aid.

Institutions like the Climate Financial Risk Forum, which is supported by the FCA and Bank of England, enable sharing of best practice across the industry. This has meant that the UK consistently ranks first or second in major assessments of green finance leadership such as the Global Green Finance Development Index[13] and the 2024 Green Finance and Investment Index.[14]

The UK is also home to one of the world's most innovative financial sectors with a reach that spans the globe. The UK is, for example, an established global leader in payments, having been the first country to implement real-time payments (the Faster Payments Services) and an early adopter of contactless technology. Many of the UK's leading fintech companies are focused on consumer-to-consumer, consumer-to-business, and business-to-business payment solutions. Furthermore, the UK is a ready market for further innovation.

---

[10] City Stats Fact Sheet, The City of London Corporation, November 2024

[11] 2024 Total Tax Contribution of the UK banking sector, publication prepared by PwC for UK Finance, October 2024

[12] 2024 Total Tax Contribution of the UK banking sector, publication prepared by PwC for UK Finance, October 2024

[13] Global Green Finance Development Index, International Institute of Green Finance (IIGF) and the Institute of International Finance Forum (IFF), December 2021

[14] Green Finance and Investment Index, 2024

The UK public has already shown an openness to adopting new fintech-enabled products and services; previous research by EY found that the UK consumers have one of the highest fintech adoption rates in the world at 71 per cent compared to a global average of 64 per cent.[15]

In addition, over the last 15 years, the UK has built a globally leading hub of fintech founders, investors and technical experts, bringing together established UK and international financial institutions, cutting-edge start-up businesses and leading technology partners in a highly collaborative, innovative and value-generating ecosystem.

An open-minded and supportive regulatory environment, as evidenced by the Bank of England and FCA's recent launch of the Digital Securities Sandbox;[16] and a legal framework that is evolving to provide more certainty around digital assets[17] has led to the UK becoming home to leading edge innovation in digital assets and money and blockchain-based payments.

This has meant that the UK continues to attract the second highest amount of investment into fintech of any country globally, behind only the United States.[18] The UK is already home to some of Europe's most valuable fintech businesses (many of whom are UK Finance members) and there is an opportunity to drive productivity in the wider economy through the adoption of these sorts of technologies by non-financial businesses and consumers.

6. What are the key enablers and barriers to growth in these subsectors and how could the UK government address them?

Regulatory framework

Having developed a world leading position in both size and innovation, the UK's progress is at risk of being stifled and the ability of our sector to support growth and grasp new opportunities faces significant constraints. In particular, the existing regulatory framework for UK financial services is highly complex, and insufficiently stable and predictable, encouraging excessive risk-aversion.

Following the global financial crisis, there was an understandable move to shore of the stability of individual banks and the wider financial system, and to reduce, or even eliminate, risks for consumers and small and medium-sized enterprises (SMEs). Over the last fifteen years, there have been reforms to the structure of banks (e.g. ring-fencing and resolution), their capital and liquidity requirements (e.g. Basel III standards, countercyclical capital buffer, leverage ratio, liquidity coverage ratio) and the conduct of their employees (e.g. senior managers and certification regime).

The regulatory framework for financial services has become more complicated over this period. Multiple regulators and public bodies now have remits that touch the sector, but no single body has overarching responsibility.[19] Only two of these regulators – the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) – have been given a new (and welcome) secondary competitiveness and growth objective, limiting its effectiveness.

Regulatory complexity and uncertainty is heightened further still by the way in which the Financial Ombudsman (FOS) sets precedents with which firms must adhere, serving as a de facto rule-maker but without the necessary processes or safeguards such as formal consultation; and by a move towards outcomes-based regulation under the FCA's Consumer Duty which, because of its subjective nature, causes further uncertainty and risk-aversion.

---

[15] **Global Fintech Adoption Index 2019**, EY
[16] **Digital Securities Sandbox open for applications**, Bank of England and FCA, 30 September 2024
[17] In September 2024, the government introduced the Property (Digital Assets etc) Bill to Parliament. This will to confirm the existence of a new category of personal property, into which crypto-tokens and other assets could fall. See **New bill introduced in Parliament to clarify crypto's legal status**, Ministry of Justice, 111 September 2024
[18] **H1 2024 FinTech Investment Landscape**, Innovate Finance, July 2024
[19] These include the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA), Payment Systems Regulator (PSR), Financial Ombudsman Service (FOS), Financial Reporting Council (FRC), Competition and Markets Authority (CMA), Lending Standards Board (LSB), Information Commissioner's Office (ICO) and The Pensions Regulator (TPR).

In addition, the financial services sector has had to adapt to revised payment services and e-money regulation, and new anti-fraud measures such as Strong Customer Authentication and new rules targeting of Authorised Push Payment fraud.

The outcome of this regulatory complexity and layering has been firms having to comply with increasingly complex and costly rules relative to other competing financial centres, a diversion of firms' resources away from growth-driving investment, and a cumulative reduction in UK firms' risk appetite. The Chancellor of the Exchequer recognized in her Mansion House speech on 14 November that the focus of the UK's regulatory system on eliminating risk has "gone too far", and "has had unintended consequences which we must now address."[20]

UK Finance was greatly encouraged by the Chancellor's commitment at Mansion House to "rebalance our approach and take forward the next stage of reforms needed to drive growth, competitiveness and investments". We welcome the range of reforms she outlined to this end, including new pro-growth remit letters for the financial services regulators, a review of how the Financial Ombudsman Services could be modernised, and the intention to replace the Certification Regime.

Capital Markets

Regulation has also affected the international competitiveness of our primary and secondary markets. The number of domestic and international companies choosing to join public markets in the UK has fallen sharply over the last decade. In contrast, several of the UK's major global competitors have enhanced their attractiveness as trading venues for international companies, especially the US Nasdaq exchange.

A strong primary market needs an efficient and transparent secondary market where prices are clear and trades can be completed quickly and efficiently. A healthy secondary market needs a strong pool of companies seeking to join public markets. Both need informed, empowered investors. The right regulatory reform package can and will strengthen all of these.

The government has also stated that a key priority of its industrial strategy is to increase UK financial services exports and improve the UK's attractiveness as jurisdiction for foreign financial services to set-up and do business. A competitive regulatory framework for both the UK's primary and secondary markets will be key to this.

The broad package of targeted regulatory reforms introduced in recent years – including the Lord Hill Listings Review, Wholesale Markets Review, the Edinburgh Reforms, FSMA 2023 and subsequent Mansion House reforms – now need effective and urgent implementation to ensure our primary and secondary markets remain internationally competitive.

Addressing this issue is not simply a question of regulation as the UK also needs the right frameworks for tax, skills and digital infrastructure as well as a supportive culture of risk and reward. However, getting the regulatory regime right is key to unlocking the growth of the UK's capital markets.

Taxation

In addition to these regulatory challenges, the way in which the UK's banking sector is taxed erodes its international competitiveness. Research conducted for UK Finance by PwC shows that the UK's total tax rate (TTR) for 2024 and 2025 is 45.8 per cent – notably higher than New York (27.9 per cent) and Frankfurt (38.6 per cent). This disparity is principally due to the continued operation of the bank corporation tax surcharge and the bank levy, and has a bearing on innovation, investment decisions and growth.

[20] Chancellor of the Exchequer's speech to Mansion House, HM Treasury, 14 November 2024

Our sector's ability to support growth is further constrained by the lack of a comprehensive policy framework for the Net Zero transition; a payments system held back by insufficient strategic direction and delivery capability; and a talent pool struggling to keep pace with the sector's evolution.

Net Zero transition

In relation to sustainable finance, alignment of the UK's financial services sector's activities with the low-carbon economy can only happen as part of a whole-of-economy transition, recognising that firms' balance sheets are often a reflection of the wider economy. One of the best ways the government can strengthen its green finance sector is therefore by supporting wider real-economy clean growth sectors. This will maximise investment and lending opportunities for the sector and put it on a stronger footing to compete overseas.

In late 2023, UK Finance ran workshops and 1:1 interviews with experts from financial institutions to identify barriers to investment and lending for low-carbon sectors. Our findings from this exercise are summarised in response to question 7.

Beyond this focus on supporting real-economy low-carbon industries, the government should implement a proportionate and supportive green finance policy and regulatory framework, which maximises credibility but does not place undue burden on the sector. To this end, we support the UK's adoption of the International Sustainability Standards Board (ISSB) disclosure standards, which offer an internationally aligned reporting baseline.

Government should consult fully on wider requirements such as transition plan reporting and a future UK green taxonomy, and welcome the announcements in the Chancellor's Mansion House package to move forward in these areas,[21] where care is needed to get the policy framework right.

FinTech and Payments system

In terms of fintech and payments, various other jurisdictions are moving ahead of the UK, for example in developing and rolling out Open Banking/Open Finance and new digital assets and money regimes. The EU, for example, has moved ahead of the UK in updating existing Open Banking legislation, proposing new legislation for open finance, and now implementing a new regulatory framework for crypto assets including stablecoins, having already passed legislation in this area.

Further illustrating the challenge in payments specifically, UK financial services firms estimate that over 90 per cent of their budget for improving payments is spent on meeting the demands of regulation, instead of creating new and better services. To flourish, the UK payments sector needs clarity about its direction of travel, clear institutional arrangements that support private-private collaboration and decision-making, and a stronger delivery capability than it has at present.

UK Finance welcomes the government's publication of the National Payments Vision. We believe this will provide a clearer framework for proportionate regulatory changes based on outcomes, allowing the industry to deliver more innovation and choice for customers and businesses.

The Vision must support commercially sustainable industry innovation in the payments sector. This is essential for the UK to attract investment to improve the experience of customers and support the development of new products and services, particularly in respect of Open Banking-enabled payments. The last government's review of retail payments (the Garner Review) focused on Open Banking as important source of innovation, competition and choice in payments.

[21] In her Mansion House speech on 14 November, the Chancellor announced a consultation on the value case for a UK Green Taxonomy, and signalled that the government would consult next year on how best to take forward the manifesto commitment on transition plans in support of its ambition to become the global hub for transition finance.

At present, the market for Open Banking payments is shaped by compliance, with both payments services legislation and a CMA market investigation order. The current Open Banking framework is not grounded in a commercially sustainable model for payments initiated by third parties that incentivises all market participants to invest in and adopt account-to-account payments. UK Finance is working with industry to provide the FCA with proposals for such a model.

We also believe there is a need for a greater decision-making role for the industry in the development and delivery of future infrastructure. We support the authorities coming together in the Payments Vision Delivery Committee and would ask for a strong voice from industry in helping to guide strategic decisions about the future of UK payments infrastructure.

Furthermore, the UK needs excellent delivery capabilities, both to execute on the strategic investment decisions needed for make UK payments fit for the future, and to give the investors in that infrastructure the confidence the need to commit to long-term investment programmes. We welcome the National Payments Vision's recognition that the current set of organisational arrangements need to be improved, including the governance model for Pay.UK.

New technologies

In addition to payments, the government and regulators have a role to play in supporting new technologies that will underpin our financial system's infrastructure more broadly in the future. This includes the opportunities that tokenisation could bring to our capital markets and the potential benefits of Artificial Intelligence (AI).

The Chancellor's announcement in her Mansion House speech that the government will trial the issuance of a Digital Gilt is a strong signal of intent to investors of the government's commitment to making the UK a hub for securities tokenisation. This will help to encourage greater innovation in tokenisation, which over the long-term, promises lower costs, reduced risks and wider access in capital markets.

In relation to AI, the potential inhibitor to growth is poorly designed regulatory intervention. AI does accentuate certain risks and these need to be mitigated, but the regulatory approach needs to avoid creating unnecessary hurdles to innovation. Financial services have a long history of using AI responsibly in the form of statistical models for functions such as capital management and lending decision-making. Machine learning has been used by many firms to protect customers from fraud for a decade. The sector is working to continue innovating with AI responsibly, looking for opportunities while continuously updating their already extensive risk management practices.

Getting the guard rails right is key to realising benefits while mitigating risks effectively. The financial services sector is well placed in this regard, with strong regulators and regulations. Both the Bank of England and FCA report that the current framework is working well. We therefore favour a regulatory approach centred on supporting existing regulators to use guidance to manage AI risks in their domains, leveraging their expertise. This minimises the risk that AI-specific laws inhibit innovation by duplicating existing regulation.

We note the Government's intention to introduce an AI bill in due course. Although we favour adapting the existing regulatory framework, we would not necessarily oppose an AI bill, provided it adopts a principles-based, risk-driven and outcomes-focused approach to regulating AI. It is critical that any such AI-specific legislation is proportionate, fosters innovation and focuses on identified gaps in the regulatory framework. Ensuring the right balance is struck will require close and ongoing engagement between government, regulators, industry and wider stakeholders.

Business Environment

7. What are the most significant barriers to investment? Do they vary across the growth-driving sectors? What evidence can you share to illustrate this?

In relation to financial services, we think the most significant barriers are as follows:

Complex and costly financial regulation

This has led to a cumulative reduction in UK firms' risk appetite, hindering lending to SMEs and other businesses to support growth, increasing the financial inclusion deficit and placing the UK at a competitive disadvantage.

Post-financial crisis, we have seen growth in competition with over half of new lending to business now coming from outside the larger banks. Whilst this growth in choice is positive, we have also seen a modest widening in loan spreads as market expectations about the pace of Base Rate reductions has moderated. However, the need to comply with more stringent capital requirements as Basel 3.1 is introduced, and the overall regulatory atmosphere being one of caution, may create challenges for business lending.

Uncertain housing policy

An overly complex planning system and general uncertainty surrounding housing policy in recent decades has contributed to the rate of growth of the UK's housing stock consistently falling short of the needs of the UK population.

Frequent turnover in political leadership has brought shifts in economic perspectives and housing market priorities generating uncertainty among both home builders and local councils. In the face of such unpredictability, the most rational response for these stakeholders has often been to take no action, ultimately leading to a reduction in the number of new homes being built.

Furthermore, from a social housing perspective, requirements for significant investment in building safety, together with decarbonisation retrofit and the development of new housing supply, mean a layering of expectations and pressures on providers' financial plans. Some of these are particularly challenging – for instance there being no access for "not for profit" housing associations to the Building Safety Fund – representing a material factor in the curtailment of development plans.

Lack of a long-term policy framework for Net Zero

With regard to the transition to Net Zero, a complex landscape of public finance institutions, which creates challenges for investors with capital to invest but insufficient clarity about where, when and with whom opportunities will arise. Public finance needs to be combined with the right policy levers. For example, even where grants have been offered for home retrofit, demand remains low. This can be addressed by coordinating the right policies with grants to stimulate consumer demand.

As noted above, UK Finance ran workshops and one-to-one interviews in late 2023 with experts from financial institutions, to identify barriers to investment and lending for low-carbon sectors. We summarised key messages in our policy paper, 'Mobilising Capital for the Net Zero Transition'.[22] The key barriers highlighted by financial services firms were:

- *Uncertainty around policy plans:* Changing climate policies in some sectors, e.g. the automotive sector, chilled investment. In other areas, policy plans were put in place but did not set out specifically how the government would incentivise the private finance needed.

- *Gaps and inefficiencies in public co-financing:* Firms called for increased sums to be made available for co-financing programmes through institutions like the UK Infrastructure Bank and now National Wealth Fund, and for specific tweaks to make private financing easier. For example, we identified instances where bidding requirements hampered financing for offshore transmission assets because banks needed to make long-term financing

[22] Mobilising Capital for a Net Zero transition, UK Finance, October 2023

commitments at the point of bid submission — an approach unsuitable for some instruments like bonds. Further detail in pp.9-10 of the above linked document.

- *Planning and infrastructure weaknesses:* Long waiting times for planning approvals hamper investment since financial services firms need to know that returns on capital outlay will be delivered on time. Firms also flagged delays to electricity grid connection, and lack of low-emissions transport charging infrastructure.

- *Skill gaps:* An insufficient workforce in certain sectors, e.g. construction, hampers delivery of low-carbon projects.

Other barriers

- A UK 'growth escalator' of funding sources that isn't working as well as it could, which means early-stage companies often experiencing a funding cliff-edge as they grow, and high-growth companies choosing to list outside the UK. We comment on this further in response to Question 22.

- Insufficient capabilities to change and modernise the UK's payment system in ways that would drive economic growth, exacerbated by complex regulatory oversight, weak delivery capacity for major infrastructure upgrades, and new forms of digital money. We commented on this in detail in answer to Question 6.

- Companies held back by a lack of ready access the skills they need to cater for the delivery of the Net Zero transition, the ongoing digitisation of their operations and the adoption of new technologies such as AI.

Business Environment – People and Skills

8. Where you identified barriers in response to Question 7 which relate to people and skills (including issues such as delivery of employment support, careers, and skills provision), what UK government policy solutions could best address these?

A talent pool in the UK that meets the evolving needs of financial services companies, supported by a skills strategy co-created by the sector and Skills England, is essential to the future growth of the economy.

The government is taking steps to reform the skills framework created by the last government, including the Apprenticeship Levy, which we welcome. Employers should be able to use the new Growth and Skills Levy flexibly, to tailor training, development and reskilling of their workforces to their specific needs. Growth of financial hubs around the UK should be supported by well-coordinated skills policies across national, devolved and local governments.

Improving workforce skills and capacity is also essential to delivering the net zero transition. Data in some sectors suggest that the workforce exists but will need to be up-skilled. This will partly arise as a response to greater policy certainty. However, targeted investment and a long-term plan to kick-start skills development will be critical.

9. What more could be done to achieve a step change in employer investment in training in the growth-driving sectors?

For the financial services sector's full growth-driving potential to be unlocked, the sectors of the economy that it enables also require a workforce with the skills needed to grow and evolve. This includes digital skills, particularly as companies continue the digitalisation of their operations and there is further adoption of new technologies such as AI. This is also true of the skills needed to support the green sectors of today and of the future that will be needed to support the delivery of the government's clean energy mission and the net zero transition.

In Net Zero Strategy: Build Back Greener,[23] the previous government committed to building and supporting a skilled green workforce that would help deliver net zero and put UK supply chains at the forefront of global markets. This included working with local bodies, employers and local communities to ensure an effective transition and to assess how local areas are working to support workers and communities with the net zero transition across England.

There is a need for impartial, lifelong careers advice and guidance available to the population regardless of age, circumstances, or background as highlighted in the Department for Education's Skills for Jobs: Lifelong Learning for Opportunity and Growth.[24] There is currently no government-backed portal that provides comprehensive information on green careers. By establishing a central point in which green careers and skills are centralised, the government can raise awareness for these careers, establish clarity and reduce confusion surrounding progression amongst prospective workers. By further utilising the existing National Careers Service, government can update the portal to create a dedicated page for green careers, highlighting their significance to the UK's net zero targets.

Business Environment - Innovation

10. Where you identified barriers in response to Question 7 which relate to RDI and technology adoption and diffusion, what UK government policy solutions could best address these?

One challenge relating to technology adoption and diffusion is the absence of robust data sets that enable these trends to be tracked in a meaningful way. The government should consider how to construct data sets that measure the size and growth of the UK's digital economy, and the extent to which technological innovation is diffusing through the wider economy.

The government must also consider both supply and demand levers in stimulating technology adoption and diffusion. For example, data from mortgage lenders indicates that heat-pump and home insulation uptake in the UK has been hampered primarily by low demand, even where financial institutions and the government offer low-cost and concessional financing. Government should examine barriers to demand and deploy a range of tools to address those barriers, for example by mapping bottlenecks in the user journey.

11. What are the barriers to R&D commercialisation that the UK government should be considering?

No response.

Business Environment - Data

12. How can the UK government best use data to support the delivery of the Industrial Strategy?

There is scope to use investment tracking data better to assess whether government finance mobilisation objectives are being met. For example, UK Finance has called for independent tracking of financial flows into low-carbon sectors, to enable government to assess how it is meeting its financing goals and make policy adjustments accordingly.

13. What challenges or barriers to sharing or accessing data could the UK government remove to help improve business operations and decision making?

We agree with the government that data fuels modern business, and a significant opportunity exists for the UK to use its data more strategically. This is particularly true in financial services, where

[23] Net Zero Strategy: Build Back Greener, October 2021
[24] Skills for jobs: lifelong learning for opportunity and growth, Department for Education, January 2021

access to banking data is already supporting innovation. For example, Open Banking-powered services are helping individual consumers to build financial resilience through financial management and budgeting, as well as unlocking new forms of account-to-account payment between consumers and businesses.

However, commercial activity based on data-sharing models – such as Open Banking, where consumers authorise their banks to share data their account data with authorised third-party services providers – will only thrive if they are based on commercially sustainable models. This is an essential prerequisite for attract the investment needed to build compelling products and services that consumers are willing to adopt at scale.

The last government's review of UK retail payments (the Garner Review) focused on Open Banking as important source of innovation, competition and choice in payments. As noted earlier in our submission, the market for Open Banking products has emerged through compliance (with payments services legislation and a CMA market investigation order) rather than commercial incentives and economic sustainability.

The current Open Banking framework is not built upon a commercially sustainable model for sharing bank account data with third parties that incentivises all market participants to invest in and adopt account-to-account payments.

We note the introduction to Parliament of the government's Data (Use and Access) Bill. This will provide a legislative basis for a long-term regulatory framework for Open Banking, as well as the creation of data-sharing arrangements in other parts of financial services and other industry sectors. This Bill is an opportunity to spur data-based, growth-driving innovation across the economy. However, it will only be successful in doing so if the data-sharing frameworks it supports are grounded in commercially sustainable arrangements for data access, and all stakeholders who benefit provide reciprocal value and contribute to the development and maintenance of shared infrastructure.

Business Environment - Infrastructure

14. Where you identified barriers in response to Question 7 which relate to planning, infrastructure, and transport, what UK government policy solutions could best address these in addition to existing reforms? How can this best support regional growth?

Housing and Planning

The government has rightly made planning reform and housebuilding a centrepiece of its agenda. Policy measures aimed at reducing uncertainty in the development process and tackling the structural shortcomings in the planning system could significantly boost construction, increase employment, and stimulate growth.

We believe it would be beneficial to shift the existing planning framework towards a more rules-based system. This change could draw inspiration from the CMA recommendation to include "effective monitoring and enforcement of local plans".[25] The government would monitor and assess local authorities' compliance with their obligations with the aim of increasing housing completions. This could build on lessons learned from successful international examples such as the "zoning" policy in Auckland, New Zealand. Land could be categorised into zones with specific criteria for housing development approval. If these criteria were met, projects would be given the green light automatically, streamlining the current ad-hoc approval procedures.

The criteria should aim to simplify the planning system and could be established at either local or national level. They would be aligned strategically with local needs or national targets, in line with

[25] Housebuilding Market Study, CMA, February 2023

approaches proposed for the National Planning Policy Framework.[26] Local voices must be representative of the whole community – rather than those of the 'vocal minority' and plans should be tailored to maximise the use of available land. When establishing the criteria, we welcome the government's initiative to review the option of building on brownfield and 'grey belt' sites to meet the UK's long-term housing needs.[27][28] The government expects local authorities regularly to review their green belt boundaries to release lower quality green belt land ('grey belt') for development to support house building targets.

The grey belt will need to be clearly defined to ensure good quality, biodiverse green belt land cannot wilfully be allowed to deteriorate for commercial purposes. The planning system should be designed to accommodate different types of housing development corresponding to the diverse needs of first-time, second (or subsequent) steppers, last-time buyers and renters.

The CMA has provided valuable insights that could inform specific amendments to the planning system. For example, promoting a greater variety of tenure and the building of smaller-scale developments could speed up the construction of new homes.[29] The CMA's recommendations also include suggestions regarding local targets and the enforcement of local plans. Making information about planning rules publicly accessible would also enhance transparency in the planning process.

We envisage that the improvements we recommend would be brought in gradually: the current planning system would evolve, not disappear.

The effectiveness of any of these recommendations hinges on their implementation. The success of a rules-based planning system depends on setting exact rules and implementation criteria. Rules that are overly restrictive or overly relaxed could have unintended consequences.

If done effectively, the transition to a more rules-based planning system could create a surge in new housing supply, resulting in lower prices and increased homeownership. In addition, a rules-based planning system would cut the planning authorities' administrative costs by introducing a degree of simplification to the approval process.

Energy and Infrastructure

In 2023, UK Finance welcomed[30] the government's action plan for Nationally Significant Infrastructure Projects (NSIP) and proposals to establish fast-track approval routes. We also called for the government to ensure similar flexibility and acceleration for non-NSIP sectors. We also called on the government to undertake policy measures needed to scale up and accelerate grid connections, such as those set out in Ofgem's May 2024 policy review[31] on reforming the electricity connections system, and the Electricity Networks Commissioner's recommendations[32] to enable the accelerated expansion of the transmission network in June 2023.

Government should also deliver on commitments in the Decarbonising Transport plan,[33] providing long-term clarity on the process to achieve outcomes like the phase-out of diesel and petrol cars, and associated infrastructure. Establishing a 10 year infrastructure strategy, as well as planning, will also be critical for providing investors with certainty around an upgraded, decarbonised transport network.

[26] See UK Finance response to National Planning Policy Framework, UK Finance, November 2024
[27] Is the greenbelt up for grabs, Financial Times, January 2024
[28] Our plan to build more homes, UK Government, July 2024
[29] Housebuilding Market Study, CMA, February 2024
[30] Mobilising Capital for a Net Zero transition, UK Finance, October 2023
[31] Policy review on reforming the electricity connections system, Ofgem, May 2023
[32] Letter to Secretary of State for Energy Security and Net Zero, Electricity Networks Commissioner, June 2023
[33] Decarbonising Transport - A Better, Greener Britain, Department for Transport, June 2024

15. How can investment into infrastructure support the Industrial Strategy? What can the UK government do to better support this and facilitate co-investment? How does this differ across infrastructure classes?

Government needs to develop more capability to re-design policy and co-financing propositions that work for investors and lenders. Initiatives like the new HM Treasury Blended Finance Unit and the Department for Energy Security and Net Zero's Private Investment into Net Zero teams are a welcome starting point.

We welcome the creation of a new National Wealth Fund (NWF) with a clear mandate to help derisk infrastructure and strategic capability investment and crowd in private capital across a wide range of UK infrastructure classes. In addition, we welcome the creation of Great British Energy which will work collaboratively with public, industry, local authorities and communities, and other public sector organisations such as the NWF.

The necessary counterparts to a major state-backed strategic investor like the new NWF are private financial and capital markets that can generate the funds that the NWF is intended to help attract into UK infrastructure.

The NWF should focus on areas where there are perceived risks that a state-backed fund can help mitigate. The proposed 'swiss army knife' approach of utilising multiple tools is welcome.

The NWF could invest in areas where private finance is not typically available. It could provide a secondary source of funds (known as a liquidity backstop) or socialise construction risk on large projects of key public interest. Each of these tools attempt to leverage private capital markets as an enabler on a deal-by-deal basis. The NWF should be designed to be profitable, reinvesting its returns into future strategically important initiatives.

The experience of institutions such as the Green Investment Bank (GIB) and the European Investment Bank (EIB) will provide useful lessons for the NWF. There is evidence suggesting that GIB and EIB participation in UK offshore wind encouraged private investors such as banks and helped establish early industry standards.

The EIB's financing for the Liverpool port extension, Crossrail and M25 widening absorbed crucial construction risk and encouraged private UK banks to follow.

The NWF should not be limited to green infrastructure alone but should target a wide range of assets and sectors capable of driving UK productivity and growth. We therefore welcome the Government's confirmation that initial capital allocated to the NWF will focus on ports and gigafactories, as well green hydrogen, carbon capture and green steel.

From a low-carbon sectors perspective, government needs to redesign some co-investment vehicles to address weaknesses. In our Mobilising Capital for a Net Zero transition paper, we set out several examples[34] where co-investment vehicles need to be tweaked to help unlock additional private capital.

The NWF should also not deflect from any of the valuable work done by the British Business Bank, including through its planned new investment vehicle, the British Growth Partnership, to provide and direct pension and other institutional capital into the UK's fastest growing and most innovative start-ups and smaller businesses. There is potential for the BBB to do valuable work in sourcing deals and providing mid and back-office support for wider NWF activity.

Business Environment - Energy

[34] See Mobilising Capital for a Net Zero transition, UK Finance, October 2023, p.9-10

16. What are the barriers to competitive industrial activity and increased electrification, beyond those set out in response to the UK government's recent Call for Evidence on industrial electrification?

See responses to questions 7, 10, 14 and 15 regarding barriers to mobilising investment and lending for low-carbon sectors.

17. What examples of international best practice to support businesses on energy, for example Purchase Power Agreements, would you recommend to increase investment and growth?

Long financing periods are expensive and risky for lenders. In the UK, contracts often require financing for the entire lifecycle of a project even before factors like a grid connection are secured. Examples in overseas markets, for example the UAE, allow for tariff adjustment at refinancing (post-completion) stage to absorb variations in rates that have occurred during the construction period. This helps to make financing of large infrastructure projects more appealing. We also recommend examining the use of tax incentives to stimulate demand for low-carbon solutions, as exemplified in the US Inflation Reduction Act.

Contracts for difference (CfDs) are another proven example of international good practice, which since 2014 have successfully facilitated investments in 29.4GW of renewable and low-emissions energy generation, with 6.4GW currently operational. In 2022, projects managed under CfDs generated enough energy to power 7 million homes and mitigated close to 6mn tCO2e emissions.[35]

The UK's successful utilisation of CfDs in offshore wind has positioned it as a leader and its commitment to CfDs is exemplified by its exploration of application to areas like Carbon Capture, Utilisation and Storage. CfDs instil investor confidence, prompting calls for swift rollouts to meet private financing demand[36]. However, the failure of the fifth CfD allocation round to attract any offshore wind farm bids highlights gaps in the process which will need to be addressed to guarantee future success. Risks arise where strike prices are not calculated accurately, which can impact the value of the investment for participants.

Business Environment - Competition

18. Where you identified barriers in response to Question 7 which relate to competition, what evidence can you share to illustrate their impact and what solutions could best address them?

As we have noted above, there is an important role for regulation of the financial services in driving growth in the economy. The rules relating to bank capital are a particularly important part of the UK's regulatory framework in this respect, given the bearing they have on the ability of institutions to lend into the real economy.

Capital requirements also have an impact on competition in the market and innovation investment. We support the PRA's Smaller Domestic Deposit Takers regime which should be widened to Intermediate firms. This recognises the need for proportionality in regulatory and supervisory approaches. But given the increase in the number of tools in the regulators' toolkit since the Global Financial Crisis, including more capital and liquidity, increased resolvability and ring fencing we recommend a broader review of the UK's regulatory environment for deposit takers that matches this broadened tool kit with the risk environment and challenges the 'safety first' approach.

---

[35] See Contracts for Difference in a Nutshell, Low Carbon Contracts
[36] Contracts for Difference for Low Carbon Electricity Generation: Consultation on policy considerations for future rounds of the Contracts for Difference scheme, Department for Business, Energy & Industrial Strategy, February 2023

19. How can regulatory and competition institutions best drive market dynamism to boost economic activity and growth?

Whilst the regulatory changes to the UK's financial sector over the last 15 years have been well intentioned, many have been introduced uniquely by the UK and without a clear vision of the role the sector should play in the wider UK economy. The outcome has been firms having to comply with increasingly complex and costly rules relative to other competing financial centres and a cumulative reduction in UK firms' risk appetite. As a result, some firms have exited markets and either withdrawn products completely or for some customer groups. This hinders the potential for growth, increases the financial inclusion deficit and places the UK at a competitive disadvantage.

The way that financial services is regulated requires a clearer vision based on stability, certainty and a greater emphasis on growth and competitiveness. Put simply, we should explicitly strive to find the point of equilibrium between risk and protection for individuals, businesses and the financial system as a whole. Now that the industry's regulators have enhanced powers post-Brexit, it is important that there is a clear steer on what the future regulatory direction should be to address this.

How the financial services sector is regulated is abstract and distant from the lives of most people, but it has a significant impact on how firms are valued and the attractiveness of the UK as an investment destination. An adjustment towards equilibrium between risk and consumer protection is needed to allow the sector to refocus on key activities, including innovative product development and growth, for the benefit of its customers. We need a political and regulatory environment that is proportionate, allows appropriate risk-taking and has competitiveness and growth at its heart.

If we can achieve this balance, we can unlock economic growth and allow greater financial inclusion. Enhancing the way that the sector is regulated through an adjustment in its risk appetite will allow customers to have greater choice whilst accepting slightly more risk.

We therefore welcomed the Chancellor of the Exchequer's recognition in her Mansion House speech on 14 November that the focus of the UK's regulatory system on eliminating risk has "gone too far", and "has had unintended consequences which we must now address."[37] Furthermore, we were greatly encouraged by the Chancellor's commitment to "rebalance our approach and take forward the next stage of reforms needed to drive growth, competitiveness and investments".

Business Environment - Regulation

20. Do you have suggestions on where regulation can be reformed or introduced to encourage growth and innovation, including addressing any barriers you identified in Question 7?

Complex and costly financial regulation has led to a cumulative reduction in UK firms' risk appetite, hindering lending to SMEs and other businesses to support growth, increasing the financial inclusion deficit and placing the UK at a competitive disadvantage.

A critical pre-condition for growth is less complex and layered regulation which strikes a balance between consumer and prudential risk and consumer protection that will help banks to devote more of their resources to growth-driving activities. Embedding the PRA and FCA's secondary competitiveness and growth objective (SCGO) will have an important role to play here, and we would also like to see the Payments System Regulator (PSR) be handed its own SCGO.

Regulatory overlap

The existing regulatory framework is also complex; several overlaps between different regulatory bodies have the capacity to cause confusion. Multiple regulators and public bodies have remits that include financial services and UK banking. Regulators include the PRA, FCA, PSR, Financial

[37] Chancellor of the Exchequer's speech to Mansion House, HM Treasury, 14 November 2024

Reporting Council (FRC), Competition and Markets Authority (CMA), Lending Standards Board (LSB), Information Commissioner's Office (ICO) and The Pensions Regulator (TPR).

The impact of this is twofold. First, there are known areas where these remits overlap; second, taken as a whole system of regulation, international competitiveness and growth are not sufficiently addressed by the collective regulatory remit. No single regulatory body has holistic responsibility for all regulation impacting banks.

We are pleased that the Government is reviewing the financial services regulatory environment, following 'Financing Growth' paper published by Labour in February 2024.[38]

The role of the FOS should be a priority area of focus for the Government's review. The current framework effectively requires firms to take account of previous FOS decisions when handling new complaints they have received. This effectively means that FOS decisions set precedents that firms must adhere to, and in practice act like new rules or guidance (created without the necessary processes or safeguards such as formal consultations).

We therefore welcome the FCA's publication of a call for input on modernising the redress scheme, following the Chancellor's Mansion House speech, in which she said reform of the FOS was needed to create a "surer climate for investment".[39]

Capital requirements

One particular area of regulation that has notable impact is the minimum requirement for own funds and eligible liabilities (MREL) requirements for banks, which create cliff-edge thresholds for smaller and mid-sized banks having to raise bail-in funds. We believe these requirements should be moderated, so that they are aligned with the scale of risk and indexed in line with GDP growth since the threshold limit was set almost a decade ago. This would enable small and mid-sized banks to grow their activities more smoothly, boosting competition to the benefit of consumers and increasing the flow of lending to small and scaling businesses.

Consumer credit rules

Another instance where regulation risks our industrial strategy goals is unintended consequences of the Consumer Credit Act's (CCA's) section 75. The CCA allows a consumer to claim against their lender if they used credit to buy goods or services that were faulty, didn't arrive, or weren't as described. This has a chilling effect on credit for green technology since green tech often has more uncertain performance track records. Reform of the CCA could address some of the regulatory barriers to green finance that have been identified by lenders and could create a more dynamic lending market to support a low-emissions economy. For example, this could be through addressing the breadth of section 75 liability and requirements around multiple agreements.

Primary and secondary markets

The international competitiveness of our primary and secondary can also not be taken for granted. The number of domestic and international companies choosing to join public markets in the UK has fallen sharply over the last decade. In contrast, several of the UK's major global competitors have enhanced their attractiveness as trading venues for international companies, especially the US Nasdaq exchange.

Addressing this is not simply a question of regulation. The UK needs the right frameworks for tax, skills and digital infrastructure as well as a supportive culture of risk and reward. However, the regulatory regime for primary and secondary markets in the UK is key. A strong primary market needs an efficient and transparent secondary market where prices are clear and trades can be completed quickly and efficiently. A healthy secondary market needs a strong pool of companies

---

[38] **Financing Growth: Labour's plan for financial services**, Labour Party, January 2024
[39] **Chancellor of the Exchequer's Mansion House speech**, HM Treasury, 14 November 2024

seeking to join public markets. Both need informed, empowered investors. The right regulatory reform package can and will strengthen all of these.

The government has also stated that a key priority of its industrial strategy is to increase UK financial services exports and improve the UK's attractiveness as jurisdiction for foreign financial services to set-up and do business. A competitive regulatory framework is key to this.

The broad package of targeted regulatory reforms introduced in recent years – including the Lord Hill Listings Review, Wholesale Markets Review, the Edinburgh Reforms, FSMA 2023 and subsequent Mansion House reforms – now need effective and urgent implementation to ensure our primary and secondary markets remain internationally competitive.

Business Environment – Crowding in Investment

21. What are the main factors that influence businesses' investment decisions? Do these differ for the growth-driving sectors and based on the nature of the investment (e.g. buildings, machinery & equipment, vehicles, software, RDI, workforce skills) and types of firms (large, small, domestic, international, across different regions)?

Financial Services

There are a number of number of areas across taxation, capital and regulation that impact upon decisions by banking groups and financial services companies to invest and should be looked at to support the sector's growth and international competitiveness.

Labour's 'Business Partnership for Growth' paper[40] rightly says that "*business needs the certainty of economic and tax decisions being taken carefully and with the long term in mind*". The UK's overall tax environment has become complicated and could be simplified to ensure it best supports investment and growth.

Looking specifically at bank taxes, each year UK Finance commissions PwC to calculate and compare the total tax rate (TTR) for a model corporate and investment bank operating in the UK versus other leading global financial centres. This analysis forecasts that, from this year, London will have a notably higher TTR compared to other competitor jurisdictions.

Based on currently announced plans, London's TTR for 2024 and projected for 2025 is 45.8 per cent. This is notably higher than New York (27.9 per cent) and Frankfurt (38.6 per cent). This ongoing disparity in the tax environment has an important bearing on innovation, growth and investment decisions.

A principal reason for the large variation in total tax rates is the continued operation of the bank corporation tax surcharge and the bank levy, which have become permanent features of the UK's tax regime. This is in contrast to the approach in the EU, where earlier this year, the Single Resolution Board confirmed that the EU's Single Resolution Fund had reached its target level and therefore *"no regular annual contributions will be collected in 2024 …and contributions would only be collected in the event of specific circumstances or resolution actions involving the use of the SRF."*[41]

In the UK, there is no end point for the surcharge or the bank levy. There has also been no uplift in the £20 billion bank levy threshold to recognise that bank balance sheets have increased with inflation. We welcome the Government's publication of the Corporate Tax Roadmap including a commitment to keep the bank taxation regime under review, though believe that there should be a plan to phase out the bank corporation tax surcharge and the bank levy over time to bring the UK's total tax rate into line with other competitor jurisdictions.

---

[40] Labour's Business Partnership for Growth, Labour Party, February 2024
[41] Single Resolution Fund: no expected contribution in 2024 as target level reached, Single Resolution Board, February 2024

As mentioned, in preceding questions, the existing regulatory framework for UK financial services is highly complex and insufficiently stable and predictable encouraging excessive risk-aversion. The outcome being firms having to comply with increasingly complex and costly rules relative to other competing financial centres, a cumulative reduction in UK firms' risk appetite and a diversion of firms' resources away from growth-driving investment,

The Industrial Strategy and accompanying Financial Services Sector Plan are an opportunity to address these barriers and fully unlock the growth-enabling capabilities of our sector.

SMEs

Our data shows that increasing costs and the economic climate remained key future barriers for investment, with concerns around staff remaining a key issue for businesses with 10-49 employees. This is particularly true for the hospitality sector. Transport and Agriculture sectors are more concerned than their peers about political uncertainty.[42]

Growth – and growth ambitions – increase by the size and international activities of businesses but decline by age of SME. There is also a strong correlation between innovation and plans to grow. SMEs with plans to grow, or to apply for finance, are more likely to have been (or to plan to be) innovative. Barriers to investment include higher interest rates, difficult trading conditions and economic uncertainty and skills shortages.

We welcome the government's decision to protect R&D investment and tax credits and would encourage the government to keep under review tax incentives in other jurisdictions to ensure the UK remains a competitive place to invest.

Another factor that has a bearing on a company's investment decisions is the availability of SME support schemes, including the Growth Guarantee Scheme which is currently due to expire in March 2026. We believe this scheme needs to be put on a longer-term footing to give businesses greater confidence about accessing and making use of the support. It could also be enhanced by extending repayment terms beyond six years and increasing the £2 million borrowing limit, so that it can help support businesses to scale up.

Looking at other SME support schemes, we are pleased that the government's Autumn Budget on 30 October 2024 committed to consult on how the Commercial Credit Data Sharing Scheme (CCDSS) and the Bank Referral Scheme (BRS) could be reformed and enhanced. In respect of the CCDSS, we think quality and coverage of credit information provided by and used by lenders needs to be improved to reflect market evolution and the use of Open Banking. The BRS has been ineffective at helping SMEs turned down for finance to access it with other lenders and should potentially be wound up.

Business Environment – Mobilising Capital

22. What are the main barriers faced by companies who are seeking finance to scale up in the UK or by investors who are seeking to deploy capital, and do those barriers vary for the growth-driving sectors? How can addressing these barriers enable more global players in the UK?

A UK industrial strategy is an important opportunity to explicitly link the capital markets reform agenda to the wider question of funding the UK's future industrial strength and growth. The government has rightly identified the role of financial services as a 'growth-driving sector' in this Green Paper. Central to this is the role that strong capital markets play at every stage in company growth, in relation to financing establishment, innovation and expansion.

[42] SME Finance Monitor, Q4 2023 Report, an independent report by BVA BDRC for UK Finance, March 2024

The growth escalator

The UK's growth escalator, which through the UK's capital markets takes a company from establishment to scale, is not working as effectively as it could. In recent years, some of the most important steps on the growth escalator have become more dependent on overseas capital. This can influence the trajectory of UK companies as they grow, including their future choice of public market or the location of their operations.

The UK needs to develop and deploy its own capital to complement this international finance. Improving UK 'competitiveness' means ensuring UK-based companies can access growth finance from UK-based investors when they need it. It has also been increasingly recognised that the jumps between key steps on the growth escalator need close attention. For example, one of the challenges with the early stage of company growth in the UK is often the way that early support at the start-up stage is cut off at defined thresholds of size and time, often long before options such as private equity investment or joining public markets are feasible.

This can create a cliff edge for both investors and companies. The UK's five-year business survival rates have hovered around 40 per cent for the last decade, a full ten percentage points lower than in the US, where considerably deeper capital cushions for early-stage companies are available.[43]The aim should not be to keep unviable companies artificially alive, but to ensure that viable companies do not fail due to a lack of capital in this vital growth stage. In that context, government and industry will need to consider how well current schemes support the challenges faced by growth companies.

Once a company is well established, the next step on the escalator will often be to seek funding to scale it up. At this step on the growth escalator the UK's ecosystem for early-stage investment is complemented by an active landscape of private investors. A key part of this picture is private equity. While private equity may not work for all companies, for many it is an important source of growth capital.[44] A challenge in the UK is the relatively limited number of domestic private equity funds able to lead on investments over £50 million, which will often be the required level for high growth companies in science and technology.

The BVCA notes that while UK funds dominate financing for smaller companies in the UK, over half of the Series B growth rounds in UK science and technology companies that raised more than £35mn in 2020-2021 were led by US funds.[45] This weighting of funding from non-UK investors matters as the investor makeup can heavily influence the company's choice of future listing destination or other strategic choices.

While some UK companies have been tempted by US listings for apparent higher initial valuations, this does not necessarily serve a company well in the long term.[46]

Pensions investment

The UK will need a range of strategies for ensuring that domestic UK investment is available for UK-based companies. For example, this includes reviewing the pensions and savings investment landscape. UK Finance's members are supportive of the government's stated aim in its Pensions Investment Review, and reasserted in the Chancellor's 2024 Mansion House speech to incentivise greater Local Government Pension Scheme (LGPS) and Defined Contribution (DC) pension fund investment in UK assets such as equities, to improve outcomes for savers and ensure that firms can access the capital they need to grow in the UK.

---

[43] One credible estimate of the relative levels of funding provided to US and UK start-ups at Rounds A-C between 2017 and 2022 placed it at a ratio of 2.4:1. See **Building on Strong Foundations**, UK Finance, 2023, p.16.
[44] The BVCA estimates that its members invested almost £30bn in UK companies in 2022, with almost £150 billion available for investment in the next few years.
[45] A Series B Round is the second round of financing for a start-up and will often be intended to help begin scaling-up a tested commercial proposition. See BVCA written evidence to UK Parliament, September 2023, p.5.
[46] See **Building on Strong Foundations**, UK Finance, 2023, p. 30.

UK Finance supports:

- Reform of UK regulation to ensure that good consumer value for investment is measured not just in fee costs but in net total returns. Pension and investment managers should be permitted to charge higher fees where this will support specialist investment strategies that deliver higher net returns in the long run.
- Consolidation among UK LGPS and DC funds to create greater economies of scale, coupled with review and reform of any disincentives for UK pension funds to hold UK equities or other growth assets, including their tax treatment and treatment under UK liquidity and capital rules.
- Continued collaboration on a voluntary basis between government and large UK institutional investors in setting ambitious targets for UK asset holding in UK pensions that are compatible with managers' fiduciary duties.

The competitiveness of UK public markets

The UK's public markets provide routes for general investors to own and share in the success of larger companies. Joining the Alternative Investment Market (AIM) or Aquis markets for smaller companies or making the transition to the main London Stock Exchange (LSE) market are pivotal moments in a company's life. Operating thereafter as a public company places new demands and requirements on companies in terms of financial management, regulatory disclosures, non-financial risk and other governance requirements.

Here the UK must address several challenges. One is simply ensuring a coherent and effective regulatory regime for listed companies that is proportionate and reflective of company and investor needs. This is why UK Finance welcomed the FCA's recent reforms of listing rules, which will be fundamental in supporting the government's mission to reinvigorate our capital markets.

The first steps into public markets are often the most challenging for growing companies. The unique role of the AIM and Aquis markets in the UK is providing this opportunity for smaller companies, including many high-potential technology companies. Both venues need to be supported in doing this by encouraging UK firms to consider using them and by promoting these markets to high-growth firms outside the UK.

Even with these specialist markets targeting smaller companies, one challenge for companies accessing public capital markets is meeting the necessary disclosure requirements and then sustaining liquidity requirements.

Robust disclosure and governance standards are one of the hallmarks of UK capital markets and important for investors. It is nevertheless equally important to ensure that eligibility and continuing obligation requirements remain proportionate to the capabilities of growing companies – the balance has not always been right in the UK. This proportionality test should be one of the prisms through which the UK reforms its listing and public offer rules and conducts its ongoing review of UK corporate governance rules.

One of the most important trends in UK capital markets in recent years has been companies spending longer in private ownership and delaying or choosing not to seek public listing. This shows up in the falling number of companies listing on UK markets. For this reason, policymakers and regulators have rightly asked if there is more that could be done to extend some of the benefits of public share ownership to companies that would otherwise not be ready or willing to take the full step to an IPO.

One example of such supports is the new Public Offer Platform regime proposed by the FCA to provide an alternative to traditional crowdfunding. UK Finance also supports the government's recent announcement that it will be legislating to establish the Private Intermittent Securities and Capital Exchange System (PISCES) – which will create a unique hybrid market in which private company shares would be available for trading at fixed intervals throughout the year (e.g. monthly), rather than permanently.

This would create an intermediate framework for fundraising that would give investors the confidence of regulated disclosure requirements but at a level more accessible to a smaller company. They would enable private companies to experience what it is like to operate like a publicly-traded company without having to comply with the full range of requirements from day one.

An alternative source of liquidity would also enable them to allow existing investors to sell their stakes in a relatively simple way – and bring in new ones. While investors in growing companies need to take a medium to long term perspective on returns, this liquidity is attractive to investors and will increase the 'investability' of participating companies.

Cultivating a healthy pipeline of growth companies in turn ensures a healthy pool of companies joining public markets. UK policy makers, regulatory authorities and industry need to work together to continually assess the way the growth escalator is working at each of its steps. They also need to focus on the critical question of how easy it is to move between those steps. If the UK gets this right, a company pursuing growth outside of the UK should be a choice and not a necessity.

Tokenisation

There is also a potential role for securities tokenisation to play across these steps on the growth escalator as the technology and regulatory framework develops.[47] Tokenisation can help make otherwise low liquidity assets available to a wider pool of investors, including in low-value tranches. This technology could, in time, provide an opportunity to make shares in start-ups, scale-ups and other unlisted equity available to a wider pool of investors, including retail investors. As the UK develops its regime for tokenised securities in the months and years ahead, it should actively explore potential applications to the growth escalator.

23. The UK government currently seeks to support growth through a range of financial instruments including grants, loans, guarantees and equity. Are there additional instruments of which you have experience in other jurisdictions, which could encourage strategic investment?

No response.

Business Environment – Trade and International Partnerships

24. How can international partnerships (government-to-government or government-to business) support the Industrial Strategy?

Trade and investment are key drivers of economic growth so measures that support financial services in their overseas business activity should form part of the Industrial Strategy and, more specifically, the government's forthcoming Trade Strategy.

UK Finance supports measures that enable our members to do business abroad with minimal frictions. Typically, these frictions may be ameliorated by measures to alleviate the regulatory burden on the businesses concerned. Regulatory recognition is a powerful tool to this end, as we explain in our report International Trade in Financial Services: defining trade policy for banking, payments and related financial services.[48]

In addition, there are various trade policy mechanisms at the government's disposal to further develop our sector's trading potential, such as financial services chapters in Free Trade Agreements and Digital Economy Agreements.

Regulatory recognition measures and regulatory dialogues

---

[47] See Unlocking the power of securities tokenisation, UK Finance, 2023.
[48] International Trade in Financial Services: defining trade policy for banking, payments and related financial services, UK Finance, October 2023

Financial services business taking place abroad, with UK nexus – for example, if the service is provided cross-border by a bank in the UK to a customer abroad – can be supported by recognition measures (such as “deference” or “substituted compliance”), by the relevant UK and overseas financial services regulatory authorities. Positively, the FCA, PRA and the Bank of England, and many of their overseas counterparts, already have the powers necessary to use these measures where appropriate.

We encourage the UK government and regulators to develop a network of formal platforms for regulatory and supervisory cooperation which could, in itself, play an important role in building the trust required for financial services regulators to apply those recognition measures. This could, for instance, occur through a forum attended by representatives of the UK’s and other country’s respective regulators, providing a structured, regular venue where topics of interest to both of their markets could be discussed. This would provide them with the opportunity to work together as they develop their own respective regulatory standards, and also to help coordinate their approach and activities when it comes to influencing the development of global standards.

Sector specific mutual recognition agreements

In December 2023, the UK and Switzerland signed the “Berne Financial Services Agreement”, a mutual recognition agreement (MRA) in financial services, allowing the UK and Switzerland to “recognise” compliance with the other’s regulation as sufficient for compliance with their own regulation of that particular service or activity. This is the UK’s first mutual recognition agreement (MRAs) in financial services; a truly ground-breaking agreement, which sets an ambitious precedent for future deals. We encourage the government to continue with the implementation of the Berne Agreement and to use it as a template for future agreements between the UK and other financial centres.

The Berne Agreement covers the vast majority of wholesale financial services sectors. It is predicated on an outcomes-based approach to recognition which is grounded on each country's existing regulatory standards and enhanced supervisory and regulatory cooperation arrangements. It has been drafted specifically for the financial services sector, so it has quite significant market access provisions, as well as measures aimed at both reducing and removing regulatory barriers to trade. Given this, the agreement goes much further than financial services related provisions normally included in trade deals.

HM Treasury is now empowered to make changes to UK legislation to realise the potential of MRAs. As a general principle when doing so, HM Treasury should consider whether the benefits thereby afforded to non-UK firms should also be made available to UK firms.

Free Trade Agreements (FTAs)

The UK’s position outside of the EU means that it can independently negotiate and secure trade deals both bilaterally with a country and through international partnerships, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This provides the Government with the opportunity to “lock in” UK market access for financial services in key markets, and to also, as a key priority in the UK’s trade agreement negotiations, secure the UK further and better access to other countries’ financial services markets. This enables the UK to negotiate FTAs that are tailored to the needs of its economy, leaning into our strengths as a services-led economy.

An FTA also provides an opportunity for the government to secure commitments with countries on digital trade. This is particularly important for our members, as financial services are generally provided digitally. Given the global nature of financial services trade – which is especially the case for the UK as an international financial centre – commitments on issues such as data transfers, particularly those which would enable easier transfer of data between parties in the UK and another country, is a priority for the sector. To this end, we support prohibitions on trade-diminishing data

requirements (e.g. restrictions on cross-border data transfer and geographical data storage mandates), which we believe should be negotiated, where appropriate, in UK FTAs.

Making International Trade Digital

There are currently an estimated four billion documents which underpin the international trade system, creating inefficiencies and higher costs, particularly for SMEs looking to grow internationally but also for larger corporates. The status quo also holds businesses back from pursuing a fully transparent ESG strategy within their supply chains. We recommend that the UK Government show global leadership on digital trade. The government can do this not just through its FTA strategy, but also its global diplomatic network and high-level ministerial engagements.

25. Which international markets do you see as the greatest opportunity for the growth driving sectors and how does it differ by sector

The UK is the largest global net exporter of FS, with a trade surplus in 2022 of $88.7 billion (equivalent to £71.8 billion). The US is the single largest destination for UK financial services exports, accounting for 34 per cent of the UK's exports in this respect in 2022. This is followed by the EU, which accounts for 28 per cent.

This means that almost two-thirds of the UK's entire FS exports go to these two major jurisdictions, making them key markets for the sector. In addition to these markets, there is also an opportunity for the UK to further develop its FS trade with other countries around the world; whether that be bilaterally, or through international partnerships, as seen with the CPTPP.

Place

26. Do you agree with this characterisation of clusters? Are there any additional characteristics of dimensions of cluster definition and strength we should consider, such as the difference between services clusters and manufacturing clusters?

No response.

27. What public and private sector interventions are needed to make strategic industrial sites 'investment-ready'? How should we determine which sites across the UK are most critical for unlocking this investment?

No response.

28. How should the Industrial Strategy accelerate growth in city regions and clusters of growth sectors across the UK through Local Growth Plans and other policy mechanisms?

Financial services make a huge contribution to the regions and nations of the UK as one of the country's largest employers, providing highly paid, highly skilled jobs for more than a million people, with around two-thirds of these roles based outside of London.

In every region of the UK, jobs in financial services are on average more productive and offer higher median salaries than those in other sectors. These roles are found not just in internationally significant financial services hubs outside of London, such as Belfast and Glasgow. From Stockton to Swansea, over 20 towns and cities have more than 10,000 people employed in the industry. 71 per cent of parliamentary constituencies have more than 1,000 local people employed in financial services.[49]

---

[49] Financial services: Growth, levelling up and skills, UK Finance briefing paper, June 2023

As we note above, a talent pool in the UK that meets the evolving needs of financial services companies, supported by a skills strategy co-created by the sector and Skills England, is essential to the future growth of the economy.

The government is taking steps to reform the skills framework created by the last government, including the Apprenticeship Levy, which we welcome. Employers should be able to use the new Growth and Skills Levy flexibly, to tailor training, development and reskilling of their workforces to their specific needs. Growth of financial hubs around the UK should be supported by well-coordinated skills policies across national, devolved and local governments.

In addition, business support and advice plays a critical role in helping businesses to improve performance, productivity and to build resilience. It is especially important that businesses have the right support and advice when they are considering use of all types of external finance including investment.

The financial services sector plays a crucial role in providing support to all UK businesses, including their customers. This includes on-line support hubs, the provision of mentoring and other activities, such as networking, investment readiness training and accelerator programmes. Target activities are provided for under served markets, such as women led businesses, disabled and ethnic minority entrepreneurs. UK Finance manages MentorsMe an online gateway for businesses looking for mentoring.[50]

Beyond the financial services sector there is a wide range of business support and advice, which is fragmented at the local, regional and national level, making it difficult for businesses to navigate to the right sources of support and advice at the right time. We believe government can play a critical role in better co-ordination and sign posting of support and advice through more effective regional and national strategies and frameworks.

29. How should the Industrial Strategy align with devolved government economic strategies and support the sectoral strengths of Scotland, Wales, and Northern Ireland?

The development and implementation of the Industrial Strategy would benefit from close ongoing engagement with the devolved governments across the UK to encourage close collaboration and knowledge sharing. As we noted above, for example, growth of financial hubs around the UK should be supported by well-coordinated skills policies across national, devolved and local governments. The same should be true of approaches to infrastructure investment, in areas such as housing, transport and energy.

Partnerships and Institutions

30. How can the Industrial Strategy Council best support the UK government to deliver and monitor the Industrial Strategy?

We support the creation of an Industrial Strategy Council in a statutory footing and agree that it should be responsible for informing and monitoring both the development and delivery of the Industrial Strategy over the long term and ensuring that policy interventions are informed by a broad and high-quality evidence base.

The specific roles proposed for the Council in the Green Paper – monitoring progress, undertaking supporting analysis, and contributing to policy development – are sensible. For the Council to establish its credibility with both the public and private sectors, we think it should report in a regular and transparent way on its work and progress to date against key milestones contained in the final Industrial Strategy and Sector Plans.

[50] The free mentorsme site offers businesses access to a list of quality-assured business mentoring organisations across Britain. An easy-to-use search engine allows businesses to refine their searches according to the life stage of their business and their location in Britain. Further information can be found here.

31. How should the Industrial Strategy Council interact with key non-government institutions and organisations?

As we note above, the financial services sector is both a key driver of UK growth in its own right, and an enabler of growth and innovation in other parts of the economy, including other growth sectors identified in the Green Paper. As such, we think the financial services sector, in its entirety, should be represented on the Industrial Strategy Council. The most effective way of doing this would be through trade association representation.

32. How can the UK government improve the interface between the Industrial Strategy Council and government, business, local leaders and trade unions?

Given the important role the Council will play in undertaking analysis and building an evidence base in support of the development and delivery of the Industrial Strategy, the establishment of effective interfaces with different parts of the economy will be essential. Industry bodies are a valuable source of data and collective insights on which the Council should draw. For this reason, we think the Council should directly engage with UK Finance, given that financial services is one of the key growth sectors in the Green Paper, as well as other industry bodies.

More generally, we welcome the development of the business partnership framework to underpin the design and implementation of the Industrial Strategy and wider policies. We would be happy to engage with this process given our experience of our engaging and interacting across many different government departments.

Theory of Change

33. How could the analytical framework (e.g. identifying intermediate outcomes) for the Industrial Strategy be strengthened?

No response.

34. What are the key risks and assumptions we should embed in the logical model underpinning the Theory of Change?

No response.

35. How would you monitor and evaluate the Industrial Strategy, including metrics?

The State of the Sector report developed in partnership between the government and the City of London Corporation[51] provides a robust evidence-based assessment of the competitiveness of UK financial services. The annual report draws upon both independent metrics, and wide consultation with the industry to provide a review of the international competitiveness of the sector. The government should continue to support the report and use its findings to help monitor and evaluate the impact of the Industrial Strategy. It could also be used an example of best practice, and similar reports could be rolled out to other key sectors.

Another measure to monitor the impact of the Industrial Strategy could be how the size of the growth sectors are evolving over time. This could be done by tracking key growth indicators such the number of people employed by each of the growth sectors, their respective contributions to the

[51] State of the sector: annual review of UK financial services 2024, The City of London Corporation in partnership with HM Treasury, 2024

UK's Gross Value Added (GVA), tax revenue generated by each of the sectors, and their contribution to the UK's trade balance.

Given the focus of the Green Paper on supporting innovation as a driver of growth, and the increasing significance of the digital economy as a proportion of the UK's economy as a whole, we also think the government should consider how to construct data sets that measure the size and growth of the UK's digital economy, and the extent to which technological innovation is diffusing through the wider economy, in a clear and trackable way.

Private sector data also has a role to play in helping to guide and evaluate policy decisions leading to better outcomes for the Industrial Strategy. Firms able to share rich data insights are in a position to help government make better policy decisions and enable the efficient delivery of public services, with better outcomes for citizens, businesses, and the public sector. This will require greater collaboration between government and the private sector.

As we note above, we think the Industrial Strategy Council should report in a regular and transparent way on its work, and how it is progressing against key Industrial Strategy milestones.

In addition, given the importance of the regulatory environment and the role that regulators play, we would like to see the introduction of outcomes-based metrics for the FCA and PRA, perhaps related to trends in the markets they regulate – for example, how the level of choice and accessibility of products evolves over time.

We see merit in HM Treasury setting specific, stretching targets for the agreed secondary competitiveness and growth objective metrics, and introducing a process for taking action to deliver performance improvements where those targets are missed. Setting measurable expectations for the regulators in specific areas will further enhance scrutiny of their performance. If HM Treasury takes this approach, it could also usefully consider the steps that should be taken to drive performance improvement in the event that those targets are materially and/or persistently missed. This is consistent with the National Audit Office's report on 'Performance measurement by regulators'[52] which notes the importance of using performance information as "a mechanism through which improvements can be made".

Options could include (i) a public exchange of letters, similar to that between the Governor of the Bank of England and the Chancellor in relation to the Bank's inflation target, or (ii) HM Treasury making use of its existing statutory powers to commission investigations by independent persons and/or the National Audit Office, which could provide a means of investigating areas in which targets have been missed and identifying options for improvement.

There are a number of metrics that would benefit from an explanation of how they relate to growth and competitiveness. For example, it is not clear how increases in the total number of FCA and PRA staff, or the total number of people within the scope of the Senior Managers and Certification Regime are considered to be good or bad for growth and competitiveness.

Additionally, we believe some of HM Treasury's metrics could be tracked at a higher frequency than they are currently, to enable regulators to respond to trends in more rapid and agile ways. We suggest two specific metrics – the FCA's 8th metric ('satisfaction of firms based on interactions with the regulators, broken down by type of interaction') and the PRA's 9th metric ('number of new entrants, exits from UK market, for each sub-sector') should be measured on a quarterly basis.

Additional Information

36. Is there any additional information you would like to provide?

The Industrial Strategy should be designed and implemented in a way that dovetails with the UK's National Resilience Strategy (NRS) and UK Government Resilience Framework.[53] Only with an

---

[52] Performance measurement by regulators, National Audit Office, November 2016
[53] The UK Government Resilience Framework, Cabinet Office, December 2023

understanding and appreciation of the UK's approach to resilience and the threats that may impact it, will an Industrial Strategy be adequately prepared and protected for challenges that could arise as it is taken forward.

The geopolitical landscape of 2024 has brought a plethora of additional factors to the security and resilience of our Critical National Infrastructure (CNI), in ways that may not have been apparent in previous decades. The financial sector, specifically, must act both at an individual firm and an industry-wide level through collective action to address the contemporary threat landscape.

The inclusion of both physical and digital security and resilience considerations are critical to any Industrial Strategy. Specifically, it should ensure that; power, water, weather, climate change, societal considerations etc are well-thought-through and the threats they pose mitigated at the design phase. Cyber security of digital infrastructure, especially the digitisation of industrial control systems and operational technology must be "baked in and not bolted on" to any strategy or project subordinate to that strategy irrespective of scale.

We would like to highlight the approach the financial sector is taking towards securing its resilience via the requirement for firms to identify important business services; set impact tolerances against those business services; and then map, document, and test the people, processes, technology, facilities, and information that support them.

A similar approach at the national level, applied to different CNI sectors supporting a wider industrial strategy could see the Government identify which services it considers a priority to maintain under short-term, medium-term, and long-term operational stresses and disruptions. Once identified, the Government should take steps to encourage individual firms to strengthen their own resilience and put frameworks in place to encourage a collaborative approach to reducing systemic risk.

Finally, we wish to highlight the increasing role of third parties for the delivery of any significant service or project. Given the technical nature of the inclusion of third parties is often critical to the effective delivery of any technical or large-scale project, strategies must consider effective third-party risk management to mitigate risk associated with this. Concentration around "critical" third parties can result in systemic failures across multiple projects and adequate control measures must be put in place.