TheCityUK

TheCityUK submission to HM Treasury Financial Services Growth & Competitiveness Strategy call for evidence

December 2024

Executive Summary

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry.

While the UK remains an attractive place to do business, other economies are also bolstering their offering and the government must take into account geopolitical developments, including the outcome of the recent US elections and the EU's efforts on economic reform. This increased competition means that the government must take urgent steps to boost the UK's competitiveness and resilience, including through an integrated and coordinated approach to the HM Treasury Competitiveness and Growth Strategy and the Industrial and Trade and Investment Strategies, as well as other policy areas outlined in this submission.

We welcome the current focus and ambition on boosting the economy and productivity. We therefore support the government's intention to publish a pro-growth, pro-competitiveness long-term strategy for the financial services industry. This is critical both to ensuring the UK's competitive position as a world-leading international financial centre, and to maximising the industry's enabling role across the UK economy. We believe the UK's world-leading professional services offering is a core underpinning and supporting component of the UK's financial services industry, including a range of transaction advisory services and legal services, with English law governing many securities transactions and wider financial and commercial contracts.

The final strategy must clearly articulate where the government will focus its efforts to ensure that industry, regulators and other stakeholders can understand how to engage with and contribute to it through a close working partnership. This includes a need to ensure that policymakers at every level can take meaningful actions to contribute to the development of financial services clusters and the creation of investable assets and propositions across the UK, reflecting the fact that two thirds of people working in financial and related professional services are based outside London.

In addition to our responses to the specific questions outlined in the call for evidence, we highlight below key factors that must be addressed to ensure a dynamic approach to bolstering the UK's ability to compete internationally:

Regulatory and legal uncertainty

Regulatory and legal uncertainty, particularly in conduct regulation, and suboptimal regulatory coordination are key disincentives to the UK's relative competitiveness. The unpredictability of redress requirements (as acknowledged in the Chancellor's Mansion House speech), is a barrier to investment in UK-based financial services firms. Specific recommendations to bolster the UK's regulatory environment are set out in our response to question 4.6.

Regulatory capital requirements

The level of regulatory capital that firms across the industry are required to hold is an important factor in the industry's ability to invest in growth-driving companies and infrastructure. In implementing Basel 3.1 we believe the PRA struck an appropriate balance between following current international standards and tailoring the rules for the UK market. This work is positive evidence the PRA has taken the secondary growth and competitiveness objective into account and been receptive to considering evidence from our industry, ensuring a more appropriate set of final rules (compared with the earlier version), while maintaining a balance with its other objectives.

Supporting growth through pro-innovation regulation

The UK should drive growth through technology and innovation. We need to adopt a proportionate approach towards regulation to protect consumers and ensure financial stability without impeding the pace of innovation, investment and development. The UK should play a key role in the development of international standards and alignment in the regulation of technologies such as Artificial Intelligence (AI) and digital assets to minimise the risk of international regulatory fragmentation.

Tax

Tax is a key factor that investors consider when comparing jurisdictions to locate their business operations and investments. Ensuring the UK's tax regime is internationally competitive is therefore crucial to delivering long-term UK economic growth. Specific recommendations on tax for financial services and banks can be found in the tax section of this submission.

Access to global talent/skills

Skills are one of the key components of a successful financial services industry, which has become increasingly reliant on highly skilled employees over time. The UK must continue to attract the best global talent. The UK needs a world-class visa regime that encourages and enables highly skilled people to locate here. This submission includes suggestions for reform of the immigration skills charge and the apprenticeship levy to help address both the attraction of talent and the domestic skills base. Action on both fronts is necessary to secure the UK's long-term talent pipeline.

International trade and investment and the UK's international relationships

We believe there is considerable headroom for growth in international markets. TheCityUK has submitted a paper to the government setting out what our industry wants from a government trade and investment strategy. Key components include considering the variety of trade policy tools that can be used with specific markets to boost exports and attract investment, as well as the need to be more proactive on international trade policy issues that impact British businesses in the increasingly important centres of growth in Asia, the Middle East and Africa. The UK-EU relationship remains important for the UK-based financial services industry. We welcome the improved political climate and the government's efforts to reset and enhance relations with the EU.

Conclusion

We look forward to working with HM Treasury and wider government departments and stakeholders in harnessing a collective effort to deliver this strategy, which we believe can bolster our industry's ability to play its enabling role across the UK economy. Our responses to the specific questions outlined in the call for evidence can be found below.

Chapter 3 – Objectives and Approach Objectives and Approach

Question 3.1: Do you agree with the proposed objectives set out in paragraph 3.6?
The proposed objectives are a sensible high-level articulation of what the government's strategy will deliver. However, we believe the published strategy must build on these objectives by:

- Ensuring the strategy's objectives are SMART in their design. Greater specificity on each of the objectives will help the industry, regulators and other stakeholders to work in partnership with the government to achieve its 10-year plan.
- Building a robust and transparent governance structure to deliver the strategy. This includes developing progress metrics and key performance indicators (KPIs) that operate across government departments and agencies, through which the strategy can be consistently governed, coordinated, monitored and adapted as necessary.
- Setting out mechanisms for coordination between government departments, regulators and key stakeholders to tackle inconsistencies and policy variations that can lead to uncertainty and ultimately erode the strategy's intended outcomes.
- Enhancing recognition and understanding of the competitive global landscape the UK is operating in. This means dynamically assessing the factors that affect mobile investment across the financial services ecosystem and ensuring metrics and KPIs allow for measurement of the UK's performance relative to international comparators.
- Focusing more on technology and innovation. Our industry is effectively a digital industry, given the fundamental role that technology and data play, and this needs to be reflected in the strategy.
- Injecting a greater sense of urgency throughout. While we recognise the government's desire to deliver a 10-year plan there must be a focus on delivering at pace and the strategy should make clear where the government wishes to prioritise its efforts across short, medium and long-term horizons.

Growth and Competitiveness

Question 3.2: [For Financial Services Organisations] For firms operating in more than one jurisdiction, what are the main drivers affecting your decisions on where to invest?
The UK's industrial and trade and investment strategies must be delivered in tandem, in an explicitly coherent way. An enhanced trade and investment strategy must be underpinned by domestic policies that enable the UK to compete globally and generate exports. Equally, a successful industrial strategy is predicated on increasing levels of investment, domestic and foreign.

The core drivers of global investment decisions made by multinational businesses typically comprise:

- Location in jurisdictions where the rule of law and judicial independence are strong features, guaranteeing the security of an investment and an impartial approach to any dispute with host country authorities.
- Location in jurisdictions where regulators of all kinds (economic, fiscal, or financial/prudential) are efficient, fast, predictable and effective.
- Location in clusters where they have ready access to customers and clients and highly skilled talent, whether domestic or international.
- Investment in destinations that have open trade and investment policies.
- Location in markets that offer competitive tax systems, avoiding costly complexity. Businesses assess the competitiveness, predictability and simplicity of countries' tax systems in holistic terms, looking not just at headline corporate tax rates but total tax burdens, the cost of compliance, long-term tax stability, and the likely future trajectory of tax policy. Personal tax

rates are taken into account insofar as they affect how attractive the location will be for the business' senior international talent.

- Proximity to sector-specific technology providers that can help them improve their offer to customers (e.g. financial institutions want to locate near FinTechs) with attractive policies which incentivise research and development in their industry.
- Investment in jurisdictions that provide high-quality infrastructure: high-quality nationwide broadband infrastructure is increasingly important together with resilient infrastructure linking it to major global markets and modern sustainable transport infrastructure (rail and flight connections). Education and health infrastructure (good quality schools, including, but not limited to, international schools, universities and technical colleges, and medical and hospital services) are also key, as is physical security.
- The UK's legal system is a key foundation upon which commerce and industry are based, helping businesses and consumers buy and sell goods and services across the economy. English law and the UK's courts provide a trusted legal framework which is used by global businesses for major international business transactions.

The global investment environment is becoming more competitive. For example, both the US and the EU have embarked on domestic industrial policy interventions designed to attract a higher share of global investment flows. Therefore, the UK cannot rely simply on its past strengths (language, location and time zone, rule of law, perceived institutional capacity and stability). It must evolve its proposition to meet the demands of an increasingly competitive global environment. This requires:

- A demonstrably coherent approach across all of government and the regulatory system.
- Articulating the strengths of the UK investment environment. Explaining to international investors the proactive steps being taken to enable the green transition and facilitate innovation in new technologies.
- Implementing a tax, legal and regulatory environment that is attractive to business.
- Using R&D systems to incentivise innovation in services sectors, as well as manufacturing.
- Recognition of the importance of English law and UK legal services as an 'export commodity'.
- Promoting the UK's talent offer to businesses and how the UK is adapting to new trends, such as the demand for cross-border remote working.
- Demonstrating that the investment environment is being considered when determining policy and drafting legislation e.g. by ensuring that draft bills, before they are laid before Parliament, will not unnecessarily deter investment due to unintended consequences.
- Ensuring foreign investment/national security screening and merger control regimes are effective and deliver high-quality and reasonably predictable regulatory outcomes.

Future of Financial Services

Question 3.3: What do you consider to be the most important trends or changes likely to affect the financial services industry over the next 10 years?

Industry and government have complementary roles in seeking to deepen the UK's global market capability and competitiveness in the following areas, which are key sources of future demand for financial and related professional services:

Make the UK a global hub for data and technology. The UK should drive growth through technology and innovation. We need to adopt a proportionate approach towards regulation to protect consumers and ensure financial stability without impeding the pace of innovation, investment and development. We also need to seek international standards and alignment in the regulation of

technologies such as AI and digital assets and ensure the population can meet changing skills needs in line with technological advancements. The UK should use its trade and investment policy to put itself at the forefront of global technology and innovation within a more integrated global digital market. Businesses will benefit from more open trade in data. The UK could become a data and technology hub, creating more high-skilled jobs, growth and investment. Building a more integrated global digital market will also enable UK FinTech firms to benefit from greater economies of scale and compete globally. Trade and investment policy is one of a range of means to address this. The UK should start by championing common ground rules for digital trade that can be applied in the work of the G7 and included in UK free trade agreements (FTAs) and the planned WTO e-commerce agreement. The UK should then seek more targeted agreements on data transfers with key trading partners that address financial (and related professional) services-specific concerns around digital trade.

Put the UK at the heart of global sustainability markets. Given the UK's strong existing sustainable finance capabilities, it should aspire to be a world leader in green and sustainable finance and the go-to partner for international businesses looking to manage and finance the net zero transition. The UK was the first G20 country to introduce Taskforce on Climate-related Financial Disclosures (TCFD) aligned disclosures across the economy. The government must build on this leadership with appropriate sustainability disclosures and financial regulation. The UK should seek to shape a coordinated and coherent global sustainable finance market to enable the growth of the UK's green and sustainable finance offering. Global coordination and international harmonisation of sustainability disclosure frameworks are crucial to ensuring the UK's position as a leading centre for sustainable finance. The UK has made slow progress in delivering core components of the sustainability disclosure requirements that were outlined in the 2023 Green Finance Strategy. The government must prioritise the delivery of these core components. An important first step is the UK's adoption of the International Sustainability Standards Board (ISSB) standards. This will support global regulatory coherence and enable the UK, as an international finance centre, to build on its strengths to deliver green and sustainable investments in the UK and internationally.

Make the UK the world's leading gateway to international investment opportunities. The UK government should help developing markets take their place in the global trade and investment system and, by working in partnership with industry, help position the UK as the location for global investors to access such markets. To achieve this, the UK should complete key capital market reforms, revitalise and promote its public equity markets to attract more international listings, and develop new strategic partnerships to support emerging markets using UK standards and rule of law. The resulting additional global investment that will likely be directed through UK capital markets to developing world economies will help improve regional security, benefit consumers in the developing world and give UK businesses further opportunities to expand into these growth markets.

Position the UK as a world leader in risk expertise and risk management. UK capital markets should be permitted to develop alternative risk transfer instruments such as catastrophe bonds, insurance-linked securities, and weather derivative contracts, attracting further capital to the London risk market. Increasing demand for energy (from AI technology and developing economies), the energy transition and continuing geopolitical uncertainty will mean the demand for risk management tools will continue to grow. The UK's international wholesale financial markets provide transparent financial markets where market participants can manage price risk, access deep liquidity and price the world's most important commodities and financial instruments, while simultaneously having access to clearing and risk management services that contribute to global financial stability and security.

The strategy should equip the UK to successfully compete in this area. The UK should also press other countries to change any rules that limit international risk transfer. This will drive more insurance and reinsurance business into the global market. By spreading risk across borders, the market will become larger, more liquid and more resilient.

Act on the opportunities arising in emerging and evolving regional 'Growth Corridors'. Driven by geopolitical tensions and economic trends, these corridors are increasingly centred around the shifts in the global centres of growth to Asia, the Middle East and Africa. Cross-border trade within ASEAN is a particular growth area. Intra-ASEAN trade now accounts for the largest share of the bloc's total trade, comprising 22.3% of all trade volumes in 2022. Another example is the growing economic integration members are seeing between the KSA and China. A prerequisite for capitalising on such opportunities will be to equip UK officials at home and in overseas posts to recognise when there is an opening for proactive intervention and to work with industry for maximum effectiveness of the UK's commercial diplomacy.

Chapter 4 – Policy Pillars

Question 4.1: Do you agree with the list of policy pillars that the government intends to focus on? Are there other areas that should be included?

The policy pillars that the government intends to focus on are broadly framed and cover many of the areas that we believe are important contributing factors to the UK's position as a leading international financial centre. However, we believe greater specificity is necessary.

Financial and wider economic regulators will play a key role in the delivery of the strategy and must be embedded as part of its delivery structure. More broadly, a close working partnership between the government, regulators and industry is vital to deliver across these pillars.

This includes a focus on coordination between government departments and key stakeholders to tackle inconsistencies and policy variations that can lead to uncertainty and ultimately erode the strategy's intended outcomes.

We believe two additional policy pillars should be included:

(i) Tax

Tax is a key factor that investors consider when comparing jurisdictions to locate their business operations and investments. Ensuring the UK's tax regime is internationally competitive is therefore crucial to delivering long-term UK economic growth. Specific recommendations on tax for financial services and banks can be found below.

A good tax regime is not only about tax rates. It is not just the headline rate of corporation tax which impacts business and investment decisions - taxation must also be seen in the round. It is also a matter of how tax policy is approached. Frequent, short-term changes to tax policies and rates send signals of instability, unpredictability and complexity to investors, which deters investment and ultimately growth.

We believe the government must pursue ways of simplifying the tax system and reducing the burden and cost for businesses to comply with the rules.

The UK tax regime must also remain attractive for senior professionals so that the UK continues to attract investment, keeps its homegrown talent, and continues to attract the best international talent. The alternative would be negative for economic growth and overall tax receipts.

From a financial services perspective, we recommend that the government:

- Initiate and publish the promised review of VAT treatment for financial services, including an assessment of the impact of the VAT regime on the UK's international competitiveness.
- Reconsider the currently internationally uncompetitive overall effective tax rate on banks in the UK, to bolster economic growth.
- Phase out the bank levy and the surcharge, which are key elements of the UK's internationally uncompetitive total tax rate for banks.
- Use the review of UK pensions to tax-incentivise investment in UK equities and other productive UK assets, for example by addressing uncompetitive aspects of Stamp Duty for UK equities.

(ii) Infrastructure, including digital infrastructure

Continued investment is also vital to the overall UK offer, not just in major inter-city infrastructure projects like HS2, but also in intra-city and regional projects that link key hubs for our industry.

The UK's digital infrastructure must keep pace with rapid technological advances. The rise of generative AI has marked an inflection point in the demand for data centres in the UK. Investment in digital infrastructure, alongside government intervention to support data centre planning, is key to building the AI capacity the UK needs to continue to compete and grow. Likewise, while the UK is currently a leader in early quantum computing developments, major investment in quantum infrastructure is needed to maintain this global position in the commercialisation phase.

Given the high energy consumption and carbon emissions associated with generative AI, the government should take steps to 'green' this digital transition, for example by supporting the industry to innovate and adopt greener AI techniques, incentivising private sector investments in clean energy, and promoting responsible practices and principles for the use of AI and other energy-intensive technologies. The government should also consider how it can harness the opportunities of the 'twin transitions' – both digital and green – in a coherent and joined-up way across government departments.

Question 4.2: Please rank the list of pillars in order of importance to your business or organisation for i) day-to-day operations and ii) longer-term plans for investing in the UK:
1. Innovation & Technology
2. Regulatory Environment
3. Regional Growth
4. Skills & Access to Talent
5. International Partnerships & Trade

Please note that we have not attempted to rank these pillars (the list above is from the question posed in the call for evidence). These pillars are interconnected and taken together, in conjunction with the additional suggestions above, make up the foundations of the UK's attractiveness. We recognise the need for the government to prioritise its efforts and suggest these pillars are considered through the lens of the UK's relative competitiveness and the industry's future growth. For example, the government's approach to international partnerships and trade will be key to the UK's ability to trade with, and stimulate investment from, both existing and higher growth markets, as outlined in our Trade and Investment submission to the Department for Business and Trade.

Question 4.3: How well is competition currently working in the financial services sector, and how can it be improved?
One ongoing consideration should be Big Tech's entry into financial services. As the technology and financial services sectors continue to evolve, and Big Tech firms become more embedded in financial services, consumers could benefit from improved services and reduced prices due to innovation and increased competition. However, there is also concern that the data asymmetry between Big Tech and financial services firms, combined with the uneven regulatory playing field, could undermine competition.

Innovation & Technology

Question 4.4: What is your assessment of how effectively the UK supports innovation and the adoption of new technology? What could be improved in the financial services sector?
The UK financial services industry has long been a pioneer in adopting and shaping new technologies. The UK has been at the forefront of major shifts in the industry, from the evolution of digital banking to the invention of open banking, to Insurtech, and now widespread exploration and adoption of technologies such as AI and digital assets across the financial and related professional services ecosystem.

Embracing technology and innovation is key to the future international competitiveness of the UK's financial services industry and its contribution as an enabler of growth, innovation and climate adaptation across the UK economy. Technology will continue to transform financial services by driving efficiencies, enhancing security, optimising services and improving customer experiences and outcomes.

The financial services industry is effectively a digital industry, given the central role that technology and data play across its ecosystem. This needs to be reflected in HMT's strategy for the industry. The government has a facilitative role to play in ensuring that firms can adapt and harness the full potential of key technologies.

In summary, to support innovation across the financial services industry, the government should:

- Pursue a proportionate approach to regulating emerging technologies.
- Move quickly to implement enhanced regulatory frameworks to keep pace with technological advancements and ensure that UK regulators work at pace and collaboratively with firms that are implementing new technologies and innovative approaches.
- Ensure transparency of future changes to regulation surrounding technologies, as well as clear plans and timelines.
- Take urgent steps to modernise UK capital markets.
- Seek international standards and alignment in the regulation of technologies such as AI and digital assets.
- Continue to develop clusters for technologies such as AI across the UK and assign additional research funding for universities.
- Reskill and upskill the population to future-proof the talent pool while educating the public about emerging technologies and the opportunities they present.
- Consider how R&D investment incentives can be adapted to support services companies.
- Ensure the UK's digital infrastructure keeps pace with rapid technological advancements and growing capacity demands.

Digital assets and the digitisation of capital markets

The digitalisation of capital markets has the potential to unlock the growth of capital markets and their role as an enabler to the wider economy, as well as fostering the creation and expansion of new FinTech companies. There have been some recent positive developments in the UK, including the Digital Securities Sandbox and the Chancellor's recent announcement of a government Digital Gilt Instrument (DIGIT) pilot. However, other jurisdictions are moving quickly to embrace innovation and modernise their capital markets. The UK must therefore urgently modernise and future-proof its capital markets for an increasingly digital economy.

Specifically, the government should:

- Deliver a modern digital infrastructure for share ownership by publishing and implementing the final recommendations of the Digitisation Taskforce, including any necessary primary legislation, to develop a modern digital framework for share ownership that aligns with, and then leapfrogs, other jurisdictions.
- Use its best endeavours in bilateral dialogues and international standard-setting fora to rationalise the system for dual-listed securities.
- Swiftly implement plans to pilot a digital gilt, to signal the UK is a hub for securities tokenisation, encourage investment and catalyse further industry participation and innovation. The Chancellor's recent announcement of a government DIGIT pilot is a positive start, but given the increase in sovereign issuances elsewhere, the UK must swiftly take steps to implement this. Both UK Finance and the Association for Financial Markets in Europe (AFME) have provided detailed implementation roadmaps. If the government pursue the 18-24 month timeframe that has been reported, they must ensure the result is comprehensive and impactful. A number of design choices will need to be made around this issuance, and HM Treasury must work with the industry to determine how a DIGIT issuance can best harness the UK's 'second-mover advantage.' With this longer timeframe, there is an opportunity to pursue an ambitious approach that reflects features in the more mature 'Phase 3' design that UK Finance has proposed.
- Work with our industry to develop industry-wide standards for the consistent and safe use of Distributed Ledger Technology (DLT) and digital assets.
- Provide further clarity on the regulatory treatment of stablecoins. Clarity is starting to form, but there is some way to go and there remain concerns about its suitability for settlements of wholesale transactions.
- Consult further on barriers to adopting tokenised deposits and provide the regulatory clarity necessary to unlock huge investment in the UK.
- Leverage the opportunities presented by the National Wealth Fund to incentivise private sector investment in tokenisation.
- Review how the current wholesale tax regime interacts with tokenised securities.

Supporting growth through pro-innovation regulation

The government should continue to pursue a proportionate approach to regulating emerging technologies. A balanced approach to policy and regulation is key to protecting consumers and safeguarding stability while prioritising safety and fair competition, without impeding the pace of innovation and development.

Collaboration between policymakers, regulators and industry has played a key role in fostering a fertile ground for innovation in the UK. World-leading initiatives such as regulatory sandboxes and TechSprints led by the FCA allow firms to experiment safely with technologies.

The UK should continue to pioneer sandbox initiatives to encourage financial services firms to safely experiment with new technologies and bolster each cohort's engagement with potential investors throughout the process.

There have been positive steps to ensure that the UK regulatory environment for financial services supports innovation. For example, the FCA and PRA's secondary objective for competitiveness and growth and, more recently, the new growth-focused remit letters issued to both regulators. However, the UK must move more quickly to bring key technologies into the regulatory perimeter. While there have been several positive steps towards developing a UK regulatory framework for crypto assets, few of these have yet come into force, and the government has not yet introduced the necessary stablecoins legislation to support this. Likewise, while the government has announced a series of technology-related bills, a number of these address long-overdue reform and must be quickly implemented, while allowing time for sufficient industry consultation. Greater pace, responsiveness and adaptability are needed to safeguard the UK's competitiveness and allow the benefits of these technologies to be realised sustainably while managing the associated risks.

Artificial Intelligence (AI)

The financial services industry is at the forefront of AI adoption in the UK. The Bank of England and FCA 2024 survey on AI and machine learning in UK financial services found that 75% of firms are already using AI, with a further 10% planning to use it over the next three years.

The UK's pro-innovation, sectoral approach to regulating AI is welcome and creates a strong foundation for leading growth sectors to harness the full potential of these technologies in various contexts. For financial services, the government should support the regulators' efforts to implement a principles-based approach by regulating these technologies within existing frameworks, rather than creating new AI-specific rules. AI is not a new phenomenon - for years certain low-risk AI applications have been successfully deployed by the financial services industry in areas such as operational efficiency. Significantly, AI is a key component in systems that protect consumers from fraud and other economic crimes.

The government plans to introduce legislation focused on the most advanced generative AI models. Highly capable frontier models, which have the potential to impact society at a large scale, should receive increased scrutiny to identify and mitigate any systemic risks. However, generative AI has the potential to revolutionise financial services, and the industry's deployment of AI is reliant upon the large AI providers developing these technologies. Legislation must be targeted and proportionate.

Moving towards a prescriptive approach like the EU AI Act, or introducing undue regulatory burdens, would create unnecessary complexity and cost by adding duplication with technology-neutral rules that are already in place, stifling existing operations, slowing innovation and productivity, and putting UK firms at a global competitive disadvantage. This is particularly important for small and medium-sized enterprises, which may be unable to resource compliance with excessive regulatory complexities. Proportionate regulation will enable the identification and signposting of specific uses that pose low risks and encourage the development and adoption of these applications across the industry to foster innovation.

Managing systemic risks is key. The government should provide clarity on the specific liabilities and levels of risk mitigation across the AI value chain to ensure that firms can deploy these technologies confidently and safely. Responsibilities should be appropriately allocated between AI providers and deployers, to avoid financial services firms having to manage this individually.

Firms need strong and clear frameworks to bolster confidence in their adoption of the newest technologies. In the case of AI, a lack of confidence in suppliers and the inability to control or have visibility over supply chains is a specific point of concern and leads to caution over the adoption of AI tools. Guidelines for model providers would enhance firms' confidence in their ability to meet regulatory expectations when adopting AI. The government should consider creating similar guidance to the Code of Practice for General Purpose AI model providers being drafted in the EU.

Continued coordination between different regulators, both domestic and international, is essential to facilitate an aligned and coherent approach to cross-sectoral and cross-border issues such as copyright and intellectual property.

Quantum computing

The government has signalled a non-statutory, 'regulation-by-application' approach to regulating quantum technologies, to be led by sectoral regulators. This is welcome. According to research by McKinsey, quantum computing could potentially generate up to $2 trillion in value across four key industries including finance by 2035[1]. Financial services firms are already at the forefront of this evolution. To position the UK at the forefront of quantum commercialisation the government should remain committed to the UK Quantum Strategy.

However, given quantum computers' potential harm to cryptographic systems, these technologies could also pose significant risks to the financial system and wider economic resilience if the industry is not prepared. The government should work with the National Cyber Security Centre (NCSC) to support the industry and regulators in the transition to post-quantum cryptography (PQC). Where possible, this should align with the US National Institute of Standards and Technology (NIST) standards for PQC.

International interoperability

The government should prioritise alignment with global laws, and the development and adoption of shared global principles for the regulation of key technologies such as AI and digital assets. As jurisdictions across the globe move to develop their own regulatory approaches to technology, there is a risk of international regulatory fragmentation and arbitrary demarcations within global AI adoption, to the detriment of UK businesses and consumers who may face slower access to new technology-driven services.

A lack of interoperability would also limit potential innovation. For example, while the UK's agile approach to AI regulation has created a space for innovation, in practice global firms will need to apply the 'highest watermark' set by other international regulators, limiting any potential innovation and productivity gains from an agile UK approach.

The UK has positioned itself as a key international interlocutor on AI safety and standards through the AI Safety Institute. The government should leverage this position to deliver a global governance framework for these technologies that avoids unnecessary burdens for businesses while protecting citizens and maintaining their trust.

The UK should work with the G7 and the G20, as well as multilateral organisations such as the Financial Stability Board and the OECD, to encourage early coordination on technology regulation to avoid regulatory fragmentation and drive innovation. Regulatory changes impacting the long-term

[1] McKinsey, 'Quantum Technology Monitor', (April 2024), available at: mckinsey.com/~/media/mckinsey/business functions/mckinsey digital/our insights/steady progress in approaching the quantum advantage/quantum-technology-monitor-april-2024.pdf

competitiveness of the UK financial system should be viewed in the context of the global digital transformation in financial services. Continued UK engagement is needed to shape this debate.

A data-enabled economy

Data is a vital asset to firms and underpins their ability to innovate. The Data (Use and Access) (DUA) Bill is a key opportunity to enable firms to harness the power of data for economic growth. Industry engagement is key to ensuring that the legislation is correctly positioned for growth while maintaining the high levels of personal data protection that we currently enjoy. We recommend that the government convene a business advisory group to help inform the ongoing development of the Bill.

The government should prioritise the DUA Bill and explore initiatives to support smart data and Open Finance, which have the potential to help improve consumer experiences and create more sources of credit for UK SMEs as well as export opportunities for UK FinTechs in key growth markets. To encourage investment in innovation, new proposition development and growth, we believe that a sustainable commercial model must underpin Open Finance. This would create the right environment to establish a long-term sustainable and flourishing market, with innovations driven by industry rather than solely working to a regulatory mandate and would incentivise businesses to reinvest to deliver further benefits for customers.

Innovate Finance and KPMG's Roadmap to Open Finance provides potential scenarios for implementing Open Finance in the UK. The Bill also creates a new lawful ground to share information for the purposes of combatting all types of crime, including economic crimes such as fraud, money laundering and terrorist financing. We welcome these measures, which will be key to encouraging greater cross-industry data sharing to tackle fraud.

The UK would benefit from a national data strategy to support the development of new tools and strong frameworks to govern both developers and deployers of technology systems. Cross-border data flows are critically important for all firms, with over 85% of exports being delivered digitally. Having the right regime can contribute to significant export growth across the UK, given that around 50% of exports in financial and related professional services are generated outside London in regional centres. The government should champion this by refining UK data policies, agreeing on new bilateral and multilateral digital partnerships, and backing plurilateral initiatives such as those led by the G7 and the OECD. The UK should optimise international data flows where it can, removing digital frictions wherever possible and avoiding creating new digital trade barriers. The government should also prioritise the extension of EU data adequacy, which sunsets in June 2025.

Fostering Innovation and Growth

It is also vital that the government creates the conditions to nurture innovative home-grown companies throughout their growth journey, leveraging the UK's world-leading research ecosystem and supporting UK university spinouts, start-ups and scale-ups.

The government should consider how R&D investment incentives can be adapted to support services companies. For example, continued funding and grants for AI R&D through initiatives like Innovate UK can foster AI innovation, particularly for SMEs that may struggle to invest in AI capabilities on their own.

Access to talent

The UK must invest in its domestic talent pool, including improvements in secondary education, particularly STEM subjects and financial literacy. The next generation of Britons must be at the forefront of technology – including green and digital technology – and finance to ensure that the UK is seen as the preeminent global talent hub for the world's most important businesses. Technology adoption is reshaping the skills needs of key growth sectors. The government should reskill and upskill the population to develop and future-proof the UK's long-term domestic talent pipeline in a diverse and representative workforce.

According to the Financial Services Skills Commission, there is a need for strategic training, reskilling and internal mobility to fend off a widening skills gap. Closing the skills gap could boost productivity, contributing an additional £555.6m per year to the UK economy[2].

As the industry becomes increasingly reliant on technology, there is growing demand for specialised digital talent, ranging from software engineers to data scientists and cybersecurity experts. A flexible and competitive visa system is needed to ensure the UK can attract and retain the best global talent and innovation, bridge talent gaps, promote knowledge exchange, and drive the technological advancements necessary for long-term economic growth, resilience and global leadership.

Question 4.5: Which technologies do you think have the most potential to transform financial services over the next 10 years? And in which financial services sectors or functions do you see these being applied most effectively?

Several technologies have potential and interlinked transformative use cases across financial services. These include:

- Artificial Intelligence (AI) / Machine Learning (ML)
- Distributed ledger technology (DLT) and digital assets, including digital money
- Cloud computing
- Smart data and development of data-sharing frameworks (as being provided for under the DUA Bill) that support Open Banking and Open Finance
- Digital verification services (DVS)
- Quantum computing, and post-quantum encryption services.

The government should consider how the convergence of technologies will maximise opportunities for growth, innovation and competitive advantage. For example, AI and DLT can together enhance efficiency in post-trade processes by minimising manual interventions and streamlining operations. Combining AI with quantum computing has the potential to improve cybersecurity and enhance fraud detection by rapidly analysing large datasets to identify patterns and anomalies. The potential use cases between various technologies are vast, and their combination could unlock a much bigger scale of business transformation and innovation.

Regulatory Environment

Question 4.6: What is your assessment of the UK's current regulatory environment?

The UK's current regulatory environment has undergone significant reform in recent years. However, it is important to consider the political and social backdrop against which the regulators work. We believe the UK's current political and regulatory approach must adapt, including to geopolitics, to contribute to competitiveness and growth. As noted by the Chancellor in her recent Mansion House

[2] Financial Services Skills Commission, (November 2024), available at https://financialservicesskills.org/news/firms-must-take-skills-based-organisation-approach-to-avoid-workforce-crisis/.

speech, it is often too focused on eliminating the risk of loss from the financial system. If not addressed, this will continue to have deeply negative consequences for economic growth, dynamism and resilience.

Our key observations on the UK's regulatory environment include:

- Regulatory uncertainty, particularly in conduct regulation, and suboptimal regulatory coordination are key disincentives to effective regulation and supervision of firms across financial services, as well as impairing the UK's competitiveness.
- Regulators must ensure efforts to transform their culture permeate consistently throughout their organisations, with their respective remit letters being a useful tool to support this.
- Regulators should enhance proportionality between the oversight and the size of the business being regulated, calibrate regulation to remove impediments to growth (including by balancing risk against the benefits of faster growth) and speed up authorisations of applications to invest capital, appoint new leaders and create new companies.
- Greater, more dynamic engagement with industry will deliver more effective policymaking with less need for amendments and clarifications. We encourage greater use of Subject Expert Groups (SEG) by both regulators.
- The difficulty of navigating a multiplicity of sources of rules, guidance and legislation can lead to unintended complexity and risk aversion from firms. For example, firms may self 'gold-plate' for fear of non-compliance, which reduces proportionality and increases the cost of compliance which is a further drain on the financial services industry and the UK's competitiveness.
- A judicious approach to rule changes is needed, with a high bar set for changes. The regulators should establish a comprehensive assessment process to enhance their prioritisation of regulatory activity, with a focus on competitiveness and growth (for example, on capital markets and pensions reforms).
- Proportionality must be a vital component of both regulators' approach (e.g. the PRA's 'Strong and Simple' framework). There is a need to assess proportionality on a granular basis, through CBAs, to understand the potential for disproportionate impacts on firms. For example, a global asset manager managing less than 10% of its global assets in the UK is required to hold 70% of its global regulatory capital in the UK, due to the FCA's application of the Investment Firms Prudential Regime (IFPR).
- Understanding the needs of customers is also crucial to proportionality. The FCA's current rule review should build on its discussion paper on commercial and bespoke insurance business and consider the differences between wholesale and retail customers. For example, where firms can face uncertainty in clarifying whether they are in the scope of certain consumer-oriented rules.
- The unpredictability of redress requirements and costs (as acknowledged in the Chancellor's Mansion House speech) is a barrier to investment in UK-based financial services firms. We welcome the joint FOS and FCA call for input on modernising the redress system. Updating the FOS' rules and processes to enable consultation with relevant stakeholders, including the FCA, can support consistent interpretations of FCA rules. The FOS must focus more on individual disputes and less on the interpretation of precedent-setting regulatory matters, thereby improving its service to consumers. The FOS must be part of the government's planned review of regulatory mandates (page 12 of Financing-Growth.pdf).

- The regulators should apply a more consistent approach to engagement and be more agile and dynamic when consulting with stakeholders – regardless of the policy area – as engagement can vary between regulators and policy issue. The International Regulatory Strategy Group (IRSG), a joint venture between TheCityUK and the City of London Corporation, proposed a method of enhancing regulators' agility in policymaking.[3] This could contribute to the secondary growth and competitiveness objective through the streamlined use of regulators' resources, minimising firm regulatory burdens, speeding up decision-making and policy development, and enhancing communication between policy and supervision teams.
- There are some examples of good regulator engagement, including the FCA's approach to authorisations, the FRC's constructive stakeholder outreach and the PRA's independent evaluation and its approach to policy consultation. We would like to see more dynamic engagement throughout the policy lifecycle (including ex-post evaluation) from both regulators, to identify and enact changes that would make a difference to consumers and the industry (e.g. maximising their operational efficiency, reducing regulatory duplication, minimising 'gold-plating' and responding rapidly to legitimate industry concerns).
- We have some concerns about the lack of industry experience and understanding among regulatory staff. Poor understanding of firms' business models is exacerbated by regular churn in supervisory teams. The regulators should explore secondments and exchanges to bolster their understanding of the impacts of their approaches on customers and firms.
- The regulators must maintain proportionate and flexible regulation that supports growth and keeps up with the pace of technological advancements and their applications. Greater pace and a dynamic approach to policymaking, in partnership with industry, are needed to bolster the UK's competitiveness and allow the benefits of new technologies (e.g. digital assets and AI) to be realised sustainably to support UK economic growth while proportionately managing risks. The FCA's sandbox has been effective to date and the FCA recognises the need to expand the scale of sandboxes, including through initiatives such as the Digital Securities Sandbox which can help modernise the UK's capital markets.
- We welcome the creation of the regulators' cost benefit analysis (CBA) Panels. We note that the FCA does not plan to consult their panel when the expected net cost of a policy change is between -£10m and +£10m. This would mean that significant policy changes which could materially affect growth and competitiveness, but cost firms little to implement, may not be scrutinised. We encourage the CBA Panels to work with the Practitioner Panels to understand the significance of policy interventions regardless of their expected net cost. The Practitioner Panels could help the FCA and PRA construct archetype firms by size and sector, and report on an indicative cumulative assessment of the additional regulatory costs to which these archetypes are subject over time. Further work is necessary to bolster the regulators' approach to quantifying the benefits and costs of proposed changes to address concerns about the robustness of the rationale and proportionality of proposed changes. For example, the FCA estimated that the Consumer Duty could result in one-off costs of up to £2.4bn, yet no quantitative estimate of the benefits was made and the FCA proceeded with implementation.

Specific recommendations to bolster the UK's regulatory environment:

- Enhanced coordination across members of the Financial Services Regulatory Initiatives Forum (FS-RIF) is necessary. **We recommend that the government ensures all FS-RIF bodies (including the PSR) have a secondary competitiveness and growth objective.**

[3] IRSG response to CP27/23: The Prudential Regulation Authority's approach to policy, (section 5 on the PRA's policy cycle) available at https://www.irsg.co.uk/assets/Responses/IRSG-response-to-PRA-CP27-23.pdf

- **Ensure that the UK has a stable, proportionate and predictable but agile regulatory environment**, with a clear focus on swiftly implementing all aspects of the Financial Services and Markets Act 2023; delivering a Smarter Regulatory Framework that supports growth and competitiveness; and ensuring coherence between the different financial services regulators acting to facilitate investment and economic growth.
- **Provide appropriate scrutiny of how the regulators deliver their statutory objectives and functions, including their secondary competitiveness and growth objectives.** The predictability and efficiency of the regulatory environment are key components of the UK's competitiveness. Speedy regulator decisions on applications to invest capital, appoint new key personnel, start new businesses or create new products are crucial factors for companies considering where to locate business activities and investments.
- **Work with regulators and industry to ensure that the regulators' metrics to measure the delivery of their secondary competitiveness and growth objectives are steadily refined to remain relevant.** Effective reporting, scrutiny and accountability will help to ensure the UK maintains high standards that contribute to its competitiveness and incorporate assessment processes to indicate where regulatory adaptation and operational enhancements are needed to boost regulatory efficiency and competitiveness.
- **Work with the grain of developments in technology and information.** Seek international standards and alignment in the regulation of technologies such as AI and digital assets. Adopt a proportionate approach towards regulation to protect consumers and ensure financial stability without impeding the pace of innovation, investment and development.
- **Ensure regulators play a key role in enabling trade** through regulatory dialogues, cooperation and agreements. The financial regulators must work with industry to better understand how UK regulation and mechanisms for cross-border activity can grow the UK footprint of international firms.

Question 4.7: How can regulation support responsible and informed risk-taking?
The UK's current political and regulatory approach must adapt, including to geopolitics, to contribute to competitiveness and growth. As noted by the Chancellor in her recent Mansion House speech, it is often too focused on eliminating the risk of loss from the financial system. If not addressed, this will continue to have deeply negative consequences for economic growth, dynamism and resilience.

Decisive, collective action is needed to challenge the current culture of risk aversion and 'safetyism' that discourages innovation and investment in productive assets such as companies and infrastructure. As part of this, the government needs to use its levers effectively to provide predictability from a policy and regulatory perspective, including how the government sets its own 'risk appetite', for example through the remit it sets the financial regulators. The ambition and courage needed to deliver long-term growth requires a degree of risk tolerance and this must form a core element of the political will necessary to deliver the government's Growth Mission.

There must be a focus on implementing policy and regulation with a balanced consideration of risk and reward trade-offs for growth. While policy and regulation are based on achieving a set of desired outcomes - for example, protecting against harm - they can have significant unintended consequences. For example, policies intended to make pensions 'safer' contributed to halving the holdings in stocks and shares by UK consumers over the past twenty years and reducing pension fund long-term investment in UK equities.

Furthermore, the UK's competitive position as a world-leading international financial centre is a significant contributor to growth and must be protected and nurtured. However, the regulatory and supervisory needs of wholesale markets and retail markets are fundamentally different. Approaches to innovation, risk appetite and agility are all distinct characteristics of international wholesale markets that need a regulatory approach that is differentiated and distinct from retail market priorities.

We believe it is essential for the UK to align with international standards, as this alignment can support and enhance the UK's ability to fulfil those objectives. While adhering to international standards, the UK must avoid imposing additional or unnecessarily stringent requirements that could compromise its competitiveness.

The UK has often taken the lead in developing regulatory measures in areas where no global consensus exists, such as Diversity & Inclusion (D&I), the FCA's enforcement proposals, ringfencing and the Consumer Duty. While these measures reflect important domestic priorities, we believe the regulators should assess whether they will place UK firms at a competitive disadvantage in global markets.

Additionally, while we appreciate the proactive stance UK regulators take in ensuring a robust financial system, additional supervisory measures should be proportionate to the risk and systematic importance of firms. Also, supervisory intensity must not create unintended burdens on firms which could hinder their, and by extension the UK's, competitive position in the global market.

We believe the government's Growth Mission cannot be delivered without an ambitious growth mindset from our regulators, operating with a more commercially aware mindset and giving due consideration to the wider economic impacts of their rules and decisions. This requires proportionality between the oversight provided and the size of the business being regulated. It means agility in calibrating regulation to remove impediments to growth, including balancing an appropriate level of informed risk against the benefits of boosting growth. It also means moving more quickly to approve applications to invest capital, approve new managers, start new enterprises and create new products. Finally, it also requires a regulatory approach that allows the private sector to innovate and deliver good outcomes in a commercially sustainable way rather than, for example, having regulators or government mandate that firms invest in a particular way.

Greater engagement with industry experts could deliver improved policymaking with less need for subsequent amendments and clarifications. The PRA's recent use of Subject Expert Groups (SEG) to help formulate Solvency UK policy is welcome. We encourage greater use of SEG by both regulators. For example, this could include the continued development of the UK's new Smarter Regulatory Framework to seize opportunities to streamline and calibrate EU on-shored financial services regulation and tailor it to the UK's needs to ensure UK markets and firms remain competitive and keep pace with international developments.

The UK regulatory authorities must work together to address potential tensions that may arise through different authorities' pursuit of their respective primary/secondary objectives (e.g. through updated Memoranda of Understanding between authorities), to ensure potential differences of approach are addressed.

Finally, for financial services to continue to play its foundational role in economic growth, improvements in the UK's regulatory regime must be matched by the government and agencies across the UK creating an open, stable and welcoming business environment.

TheCityUK

Regional Growth

Question 4.8: [For Financial Services Organisations] What are the three most important factors, ranked in order, that you consider when making an investment location decision within the UK?
Please read our response to question 3.2 above in conjunction with the below.

Two thirds of the people working in the financial and related professional services industry are based outside London. Increasingly, new and innovative divisions within global firms, as well as senior leadership teams, are being based across the whole of the UK. This trend has been mirrored by the government and regulators. Notably, financial and related professional services jobs in the UK's regions and nations are better-paid than the average jobs in the location.

Our 2023 report, *Enabling growth across the UK*, identified common factors driving investment decisions. These included:

- Access to talent: Investments were made in cities where the firm knew it would be able to recruit the highly skilled individuals it would need to make the operation a success. This often included close geographic and cultural links to world-leading universities, but also a sense that the cities are great places to live as well as work, attracting people to develop a long-term career in the area.
- Political support: Coordination and support from local civic leaders – including local government, combined authorities, or devolved legislatures – were hugely important for firms making investment decisions.
- Thriving private sectors: Cities which have dynamic business ecosystems are particularly attractive to investors, creating a positive feedback loop. Civic leadership can also play a role in delivering such an environment.
- Connectivity: Good transport links - whether by road, rail, or air - were important factors for firms in considering their investments. Quick and reliable transport is essential to doing business and attracting talent. These factors mutually reinforce one another and act as clear triggers for investment by global firms looking for new locations. Civic leaders who wish to attract greater investment from financial and related professional services to their town or city should consider carefully how they can deliver such an environment. The rewards are clear – new investments, good jobs and economic growth.

Question 4.9: How can we capitalise on synergies between different regional financial services hubs to support growth?
TheCityUK has a long-standing programme of work on financial and related professional business services clusters across the UK, including important centres such as Birmingham, Bristol, Leeds, Liverpool, Manchester and Sheffield in England; Cardiff in Wales; Belfast in Northern Ireland; and Edinburgh and Glasgow in Scotland; in addition to London, the world's leading international financial and related professional services hub.

The strengths in each region and nation, combined with supportive government policy, should enable the UK to maintain its position as a global industry leader. Our policy recommendations provide a template for how government – whether based in Westminster, the nations, or the English regions – can build a strong partnership with our industry to maximise inclusive growth.

Our ideas in the areas of devolution, people, skills, growth and planning reform[4] are practical and deliverable and would make a real difference to individuals and businesses in every part of our country.

The government and the industry should work in partnership to identify and map particular strengths of regional financial services hubs. This information should be used to inform policy and government-industry partnerships in several ways:

- Identifying and acting to remedy particular skills gaps.
- Identifying weaknesses in supporting infrastructure, particularly digital infrastructure.
- Understanding and promoting the UK's particular regional investment offerings to international investors, particularly where this would benefit from coordination and cooperation between regional hubs.

Not only can the UK's regions and nations benefit from inward investment. They also include economic centres and businesses which can themselves be instrumental in the UK's investment programme, both inward and outward.

We welcome the government's recognition that, for the regions and nations to take full advantage of the opportunities, regional economic data needs to be further developed and improved. In the meantime, local and regional government and devolved authorities need to be engaged in investment attraction efforts and brought in early to pitch to international investors, through arrangements streamlined and coordinated by the UK's Office for Investment.

Skills & Access to Talent

Question 4.10: What is your assessment of the UK's ability to attract global talent to the financial services sector?

Our anecdotal experience does not suggest that the UK is more difficult to attract talent to than other international financial services centres. It remains the case that London is not a hard sell to foreign executives considering furthering their careers here.

However, we should not be complacent and the UK must continue to ensure government policy supports industry to attract the best global talent. The UK needs a world-class visa regime that encourages and enables highly skilled people to locate here. This is not just a matter of ensuring that UK-based businesses can, over the long run, recruit their personnel from as wide a pool as possible. It is also a day-to-day competitive issue when supplying services requiring a designated project team of international talents.

If the team can be assembled in the UK, the business will likely come to the UK. If visa restrictions prevent the team from being brought together in the UK, it will be assembled elsewhere (perhaps Luxembourg or Singapore) and the business will go there. Services are not a commodity, to be supplied from existing stock. A service supplier must meet a customer's demand with a package of the right advice and the right team to deliver it, at the right time. The ability to source the necessary talent quickly is therefore critical.

[4] TheCityUK, 'Enabling growth across the UK 2024' See pages 7-15 for further detail on these recommendations, available at https://www.thecityuk.com/media/sapbwnqv/enabling-growth-across-the-uk-2024-uk-based-financial-and-related-professional-services.pdf

As the industry becomes increasingly reliant on technology, there is a growing demand for specialised digital talent, ranging from software engineers to data scientists and cybersecurity experts. A flexible and competitive visa system is needed to ensure the UK can attract and retain top global talent and innovation, bridge talent gaps, promote knowledge exchange, and drive the technological advancements necessary for long-term economic growth and global leadership.

The UK should also create mobility corridors for highly skilled workers between the UK and key trading partners, with streamlined visa requirements or wider permitted activities for short-term stays. The government could also consider a pilot approach whereby pre-approved firms are allocated, subject to agreed rules, a certain number of visas which they can use to enable this flexible approach to international mobility. This would be subject to withdrawal if a firm were found to have misused this facility.

Question 4.11: What is your assessment of the UK's ability to effectively upskill and reskill domestic workers for roles in the financial services sector?

Skills are one of the key components of a successful financial services sector, which has become increasingly reliant on highly skilled employees over time. 73% of roles in financial services are now highly skilled, compared with 52% twenty years ago[5]. Firms have struggled to get the skills and talent they need to compete. The industry came together at the request of HM Treasury to form the Financial Services Skills Commission (FSSC)to help address this. The FSSC produces research, tools and opportunities to collaborate on building the skills needed for a growing and competitive industry which is future-ready.

There is sometimes a perception that industry short-termism leads to under-investment in domestic skills, and that overseas workers supplant rather than supplement domestic workers. The financial and related professional services industry recognises the importance of investing in domestic talent development, including by reskilling and upskilling. However, domestic talent development is best supported by the proceeds of growth in competitive and dynamic UK-based businesses. Global talent brings with it skills, knowledge and innovation that increase the UK's capacity to offer world-leading services. Domestic talent benefits from this innovation and knowledge sharing, which in turn can lead to the development of innovative companies that become attractive investment opportunities.

Immigration Skills Charge (ISC)

The ISC should be emblematic of this mutually reinforcing dynamic – whereby the proceeds of a charge paid by employers to hire each sponsored foreign worker today are used to fund the training of the local workforce of tomorrow. However, in practice, there is limited transparency and accountability for how the proceeds of the ISC are applied and used.

The government should ensure the funds generated from the ISC are used to fund domestic upskilling and reskilling. It should be much more explicit and transparent about the link between the costs that employers pay to bring in overseas workers, and how these funds benefit and support local talent development. Not only on a practical level. But, as importantly, sending an important and well-publicised message, that:

- The government has required employers to pay the ISC whenever they sponsor an overseas worker and;
- This charge is then being used directly to fund investment in the domestic skills base.

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[5] Financial Services Skills Commission, 'People and Technology', (November 2023), available at: financialservicesskills.org/people-technology/

Domestic skills development

The UK must invest in its domestic talent pool, including by improving secondary education, particularly in STEM subjects and financial literacy. The UK's next generation must be at the forefront of technology – including green and digital technology – and finance to ensure that the UK is seen as the preeminent global talent hub for the world's most important businesses.

Technology adoption is reshaping the skills needs of key growth sectors. The government should accentuate policies for lifelong learning to reskill and upskill the population to develop and future-proof the UK's long-term domestic talent pipeline in a diverse and representative workforce.

Reform of the Apprenticeship Levy

We believe that there is now huge scope to improve the impact of the Apprenticeship Levy through greater flexibility. We welcomed the announcement in March 2024 that firms will now be able to transfer a much greater percentage of their levy funds to small businesses and charities, something we had called for in our 'Enabling growth across the UK 2023' report. We welcomed the government's pledge to transition to a broader Growth and Skills Levy.

We believe this will better equip the industry to reskill employees for the jobs of the future, particularly those associated with the green transition. Greater flexibility, for example in the length of time given to complete courses and spend funds, and in the use of new techniques such as blended learning, as well as different qualifications, will radically improve levy impacts on the lives and opportunities of individual apprentices and on the growth and productivity of UK businesses.

International Partnerships & Trade

Question 4.12: What barriers do international financial services firms face in either establishing and operating in the UK, or using UK markets?

We welcome the steps that the FCA and PRA have already taken to improve speed and efficiency in processing authorisations, and the further steps to which they have committed. However, the often lengthy delays, particularly to the Senior Manager approval process under the Senior Managers and Certification Regime (SM&CR), remain a cost barrier to international firms operating in the UK. The costs and delays associated with the UK's regulatory regime make it harder for global firms to make the case for international capital to be invested in the UK.[6]

We continue to encourage government and regulators to work with the industry to streamline authorisation processes to reduce the burden both for the firm in terms of a streamlined application process and for the regulator in terms of a simplified approval. This could also be considered for individuals who have received regulatory approval in another comparable jurisdiction.

Specifically, we encourage the government to explore and support the use of Mutual Recognition Agreements (MRAs) between the UK's regulators and regulators in comparable jurisdictions to streamline the approvals process. Potential candidates for such a mutual recognition regime would include Australia, Japan, Singapore and Switzerland, where there is a high level of trust and good working-level relationships between regulators.

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[6] TheCityUK, 'Improving regulatory efficiency on authorisations', (January 2023), available at https://www.thecityuk.com/media/5zrdwver/improving-regulatory-efficiency-on-authorisations.pdf

Establishing trust and mutual recognition of the integrity of each other's approvals process would enable UK regulators to draw on the information provided to other jurisdictions, and vice versa, to reduce delays and costs in the system. It would also reduce the need for firms and individuals to supply the same information to multiple sources and should speed up the approval process.

For example, in the case of individuals who have worked overseas, it can be difficult and sometimes impossible to get criminal checks due to local differences, including requirements to attend a local police station in person to complete the checks. This causes delays in collecting the evidence for regulatory approval. Under a mutual recognition regime, UK regulators could be reassured that a trusted regulator had already made these checks.

Question 4.13: What opportunities should the government seek to advance through its international financial services relationships?

TheCityUK's International Strategy distinguishes between Tier 1 developed markets which have significant economic opportunities - such as the US, EU, Japan, Switzerland, Hong Kong and Singapore - and smaller Tier 2 developed markets such as Canada, Australia and New Zealand. Similarly, the industry distinguishes between Tier 1 developing markets, which provide the most commercial promise - including China, India, Indonesia, and Saudi Arabia - and Tier 2 developing markets which offer fewer overall commercial opportunities such as Malaysia, Brazil, Kenya, Vietnam, Qatar, Bahrain, UAE, Kuwait, Ukraine, South Africa, Nigeria and Kazakhstan.

Enhancing the effectiveness of regulatory dialogues

The industry welcomes the government's intention to examine complementary trade and investment policy options and instruments for furthering industry objectives, expanding market access and reducing regulatory frictions. The challenges faced by our members in supplying high value-added services tend to be complex and rooted in the domestic regulatory regimes of other jurisdictions. Therefore, regulatory dialogues and other mechanisms that address regulatory barriers are valuable tools to address these challenges.

However, to be effective they require a partnership between industry, government and regulators to ensure they are outcomes-focused. For example, the India UK Financial Partnership (IUKFP) has a mandate from the UK Chancellor and Minister of Finance of India. It is tripartite (government, regulators and industry) with participants in both jurisdictions working together to produce shared recommendations that can be endorsed and actioned at the highest levels.

This increases engagement from our members because there is a clear pathway to action and impact. With a direct Ministerial mandate, the IUKFP not only offers a channel to enable the group to pursue clear and coordinated objectives but also ensures continuity in supporting a long-term agenda for bilateral collaboration.

We would welcome the creation of similar structures to build and maintain momentum in the UK's financial dialogues with other jurisdictions, in all their forms.

TheCityUK

Chapter 5 – Priority Growth Opportunities

Question 5.1: Do you agree with the priority opportunities that have been identified?
The priority opportunities outlined require greater specificity and analysis to link them to other considerations outlined in this submission. This includes:

- Analysing the potential scale of each opportunity from an economic growth perspective, for example, job creation, investment and export perspectives.
- Assessing their potential to contribute to key government priorities, for example, to stimulate productive investment, deliver better retirement outcomes and support the financial resilience of individuals and households across the UK
- Linking them to the UK's international competitiveness and ability to trade with international growth markets and growth corridors.
- Understanding the skills needed to enable the industry to respond to these opportunities.

Each part of the financial services ecosystem has the potential to deliver on growth, both individually and collectively. For example, growth in the banking sector can drive increased activity in fintech and sustainable finance, while growth in insurance and investment management can deliver better climate solutions and better retirement income.

Question 5.2: Which of the following business areas and activities do you see: a) For financial services firms: As high growth opportunities for your firm? b) For other organisations/individuals: As high growth opportunities for the sector?

Please rank the below from 1 to 11, where 1 is the highest growth potential.
1. Asset Management
2. Financial Advice
3. Financial Market Infrastructure
4. FinTech
5. Insurance/Reinsurance
6. Investment Banking
7. Mutual/Cooperative
8. Payment Services
9. Pensions
10. Retail Banking
11. Sustainable Finance
12. Other (please specify)

Please note that we have not attempted to rank these pillars (the list above is from the question posed in the call for evidence). Please see our response to question 5.1. We suggest HM Treasury undertake analysis and assessment based on other considerations outlined in our response to that question. For example, job creation and economic growth. In addition, consideration should be given to cross-cutting activities such as sustainable finance, which covers the full range of our industry. The industry is now a digital industry and is enabled by a range of financial technologies and there are some firms for whom technology is the underpinning basis of the services they offer.

Fintech

Question 5.3: What do you see as the most important ingredients for a thriving UK fintech sector in the coming 10 years?

The ability to innovate and adopt technology underpins the UK FinTech sector. Proportionate regulation is vital to ensure that compliance burdens do not stifle the growth of FinTechs and to enable institutions of different sizes and business models to compete on an equal footing. Clear, predictable regulation and consistent government strategies for key technologies will also support innovation and encourage investment in UK FinTechs. For example, while the pivot from a 'safety-first' to an 'opportunities-first' approach to AI is welcome, a more consistent government strategy would provide confidence to FinTechs to experiment with these technologies. For further details on how to support innovation across the financial services industry, please see our response to question 4.4.

In addition to an environment that supports innovation, the UK FinTech sector is dependent on the future pipeline of SMEs. The UK has a strong record of building and developing innovative high-growth profitable companies and scaling them to a certain size. But too many of those companies are choosing to continue their growth outside of the UK, taking the value, the innovation, the jobs and the economic growth that goes with them out of the UK.

Throughout their lifetime SMEs will use various parts of the financial markets as they grow and their business needs evolve. From bank loans, government-backed or regional schemes such as the Enterprise Investment Scheme (EIS), angel investors and venture capital, and private equity to public equity markets, the choice of funding depends on factors such as the business's stage of development, sector, growth potential and specific needs. UK equity markets are one source of funding that can play a critical role in enabling those entrepreneurial minds up and down the country to build their businesses, create jobs, support their local communities and drive economic growth.

The UK SME growth market (including AIM and Aquis) is a significant component of the UK's equity markets. It illustrates and supports the vibrant, diverse range of companies being nurtured up and down the UK. Most new admissions onto UK growth markets (83% on AIM since 2015) are UK-incorporated companies. The UK must revitalise its SME growth market to keep more of the value created by these companies in the UK.

TheCityUK will publish a paper in Q1 2025 setting out strategic enablers to boost the SME Growth Market in the UK, which we will share with HM Treasury.

Question 5.4: Which are the critical factors for success that are specific to the fintech sector to enable innovative businesses to succeed?

Please see our response to question 5.3.

Sustainable Finance

Question 5.5: In the UK's sustainable finance framework, as set out in the Chancellor's Mansion House package, do you see barriers or gaps that would support the growth and competitiveness of the UK sustainable finance market?

We welcome the sustainable finance package announced at Mansion House by the Chancellor. This was a positive development and signalled long-awaited progress on key commitments made in the 2023 Green Finance Strategy that have been significantly delayed. TheCityUK has called on the government to accelerate the delivery of core components of the 2023 Green Finance Strategy, such as UK endorsement of the ISSB standards and progress on transition plan disclosure requirements. This is critical to maintaining the UK's position as a leading centre for green finance.

More clarity is still needed on how public sector institutions like the National Wealth Fund will work in partnership with the private sector to leverage capital for projects including through risk mitigation.

Clear, coherent and interoperable financial regulation is essential if the UK is to capture its net zero competitive advantage and deliver economic growth. The government must view the various pieces of the sustainable finance framework as complementary elements of the overall solution. A more transparent and consistent policy and regulatory environment should offer financial institutions the guidance they need to direct their investments towards the low-carbon economy. This is an essential precursor to unlocking the private capital necessary for supporting growth and achieving the UK's net zero target.

To support risk management, improve trust and enhance competition, the UK's sustainable finance regulatory framework must be proportionate. Overly stringent regulation could hinder capital flows to sectors that need investment for the sustainable transformation of the economy. It will take time for companies to adjust to new regulatory requirements and develop the necessary capacity and capability. The UK's regulatory framework for sustainable finance must be adaptable and include flexibility provisions to allow for reporting to improve over time.

- **Sustainability-related disclosures.** Global coordination and interoperability on sustainability disclosure requirements is key to maintaining the UK's position as a leading centre for sustainable finance. The government must prioritise the swift adoption of ISSB standards in the UK, without divergence, to maximise global consistency and practical utility. The UK must lead by example and advocate for as much consistency and harmonisation as possible. It is of the utmost importance that we build an effective international framework for sustainability-related disclosures, to minimise fragmentation and regulatory arbitrage and promote greater transparency, consistency and comparability. This is particularly important for companies operating across multiple jurisdictions, and to enable the UK, as an international finance centre, to build on its strengths to deliver sustainable investments in the UK and internationally. Progressing the adoption of ISSB standards must be the government's priority across the measures announced in the sustainable finance package.
- **Transition plans.** Transition plans can provide a helpful tool for companies to assess and communicate how they will progress towards net zero targets. They enable investors to make informed and confident assessments of a company's risks, opportunities and long-term strategy in the context of the transition. The government must ensure that transition plans follow a standardised format, are not overly prescriptive, and give firms the flexibility to report on their most material issues. We strongly support the work of the Transition Plan Taskforce (TPT) and encourage the government to look to the TPT's disclosure framework when considering disclosure requirements for transition plans in the UK.

- **UK green taxonomy.** We welcome the government's consultation on the value and use cases of a UK Green Taxonomy. The government must engage widely with companies and financial institutions on the use case for a taxonomy, to ensure that it reflects progress made in other areas such as sustainability disclosures, transition planning, market practices and the introduction of the anti-greenwashing rule.
- **ESG ratings.** We welcomed the Chancellor's announcement that the government will progress plans to regulate ESG rating providers. This will help increase the transparency of rating processes and assessments, reducing potential or actual conflict of interest, and ultimately improving product quality and outcomes for rating users. Regulation should build upon the Code of Conduct for ESG ratings and data providers that the International Regulatory Strategy Group (IRSG), a joint venture between TheCityUK and the City of London Corporation, published last year[7].
- **Carbon Markets.** We welcome the policy signal supporting the role of Carbon and Nature markets in the delivery of climate and environmental goals and look forward to the consultation expected in early 2025. We also support the work of the government to expand and evolve the Emission Trading Scheme to drive domestic decarbonisation. The introduction of the Carbon Border Adjustment Mechanism (CBAM) in the EU has further accelerated non-EU corporates to measure their emissions (if they are importing into the EU) and is pushing governments to establish carbon pricing. The UK – together with its carbon market operators – can use its expertise and bilateral relationships to promote the successful market structure that exists in the UK and pave the way for carbon pricing globally.

Question 5.6: What do you think should be the UK's priority when engaging with the global sustainable finance agenda, both bilaterally and at a multilateral level?

The UK has a legacy of being a leader in sustainable finance and an opportunity to drive the global sustainable finance agenda. The UK was the first G20 country to introduce Taskforce on Climate-related Financial Disclosures (TCFD) aligned disclosures across the economy, the first country to set legally binding carbon budgets under the Climate Change Act, and the first major economy to set a net zero target in 2019. The UK has experience in financing the transition and sustainable development and has an opportunity to lead by example through the approach the government takes to sustainable finance domestically.

Key priorities for the UK when engaging internationally on the global sustainable finance agenda should be:

- **Internationally aligned regulatory frameworks, data and disclosure standards.** We must build an effective international framework for sustainability-related disclosures which maximises interoperability and promotes transparency, consistency and comparability. The UK has an important role to play in encouraging greater global convergence on sustainability disclosures and reporting standards. The government must engage with other jurisdictions to drive international alignment and work with the international community to ensure these standards consider different regional pathways. This includes engaging internationally on international interoperability of transition planning and highlighting the work of the TPT disclosure framework.

[7] International Regulatory Strategy Group, 'Code of Conduct for ESG Ratings and Data Products Providers', (December 2023), available at https://www.irsg.co.uk/assets/DRWG/DRWG-Code-of-Conduct-for-ESG-Ratings-and-Data-Products-Providers.pdf.

- **Robust long-term policies for the net zero transition**. Long-term policies for the net zero transition (such as a national transition plan), supported by sector-specific strategies and policy instruments, would send a strong market signal to investors and reduce uncertainty, catalysing private sector investment into the net zero transition. The next round of Nationally Determined Contributions (NDCs) due in February 2025 will be a key opportunity for countries to outline how they intend to achieve the goals of the Paris Agreement. The opportunity should also be taken to provide long-term clarity to investors on the steps each country intends to take to reduce national emissions and adapt to the impacts of climate change. The UK has sent a strong signal with the announcement of its headline NDC target of 81% reduction by 2035, based on 1990 levels. Further detail on the implementation and financing of the NDC will be crucial to effectively delivering this ambitious target, and it is important that the government engages with the private sector on this. The government must also leverage the UK's ambitious climate commitment and support other countries in developing ambitious and credible NDCs (and the associated domestic policy frameworks and sectoral pathways). The government must encourage countries to work closely with the private sector to optimise private capital mobilisation for NDC implementation.

- **Transition finance**. International collaboration on transition finance was identified by the Transition Finance Market Review (TFMR) to be crucial to scaling transition finance and successfully establishing the UK as a home for credible transition finance. There is an opportunity for the UK to lead the growth of transition finance, drawing on its strengths in green and sustainable finance, its international financial and related professional services industry, diplomatic and public finance levers, and established ecosystem of expertise and thought leadership on sustainability. The UK must engage with international organisations and other markets to support the development of a coherent global strategy on transition finance and the scaling of transition finance for Emerging Market and Developing Economies (EMDEs). There is an opportunity for the UK to lead by example. Internationally, the UK's work on Just Energy Transition Partnerships (JETPs) was identified by the TFMR as a high-profile model which could be learnt from and built on to deliver greater international collaboration on transition finance for high-emitting sectors.

- **Champion the role of public-private finance in scaling climate and transition finance**. Deeper collaboration, coordination and cooperation across government, industry and development finance institutions (DFIs) is needed to unlock private capital, in particular for emerging and developing economies. The UK has an opportunity to take a leadership role, championing the role of DFIs and national development banks in crowding-in private capital to fund investment in climate solutions and low-carbon technologies. Domestically the UK showed leadership through the former UK Infrastructure Bank, and now the National Wealth Fund. Internationally, British International Investment (BII) has over 75 years of experience in investing patient and flexible capital and a strong legacy of supporting countries and communities in a just transition to net zero. There is also an opportunity for the UK to leverage its expertise, including in our industry, to provide capacity building and technical assistance to other countries.

Question 5.7: What are the opportunities and barriers for the financial services sector in developing the products and/or services necessary to facilitate investment into the net zero transition?

The UK financial and related professional services industry stands ready to play its part in the net zero transition and recognises the opportunities that the transition presents. With the right conditions and enabling environment, private finance could be scaled up further and faster:

- **Policy certainty.** The government must create the right policy environment to stimulate new projects. Industry can only deploy capital at scale where there is demand, evidenced by a pipeline of investable opportunities. Investors require commitment from the government on technologies and/or sectoral pathways, policy clarity and predictability, and development of the tools and policy measures that create the right conditions for investible propositions.
- **Sector-specific strategies.** Specific, quantifiable and actionable sector-specific strategies are necessary to facilitate investment at scale into the net zero transition. Sector-specific strategies should include clear milestones and detail on how the government will use different policy levers (i.e. pricing, regulation and taxation) to enable and incentivise investment. The strategies should cover all sectors of the economy, with an initial focus on the most high-emitting and hard-to-abate sectors, as well as areas where the UK has a competitive advantage.
- **Capital raising plan**. There is a need for a capital raising plan that sets out investment requirements across sectors and regions by different pools of capital to 2035 (e.g. from venture capital and private equity for early and mid-stage investment in new climate solutions, to pension and insurance funds for longer-term investment grade projects). The plan should outline how the government will raise the public and private capital that is required and include mechanisms to monitor, report and verify progress in meeting the capital raising requirements.
- **Investible propositions.** For the UK to attract investment in the net zero transition, there needs to be a solid pipeline of investible opportunities for investors to support. To ensure an investable proposition, a project must have:
    - Clear strategic policy and regulatory support from the government.
    - Sufficient risk mitigation tools such as capital grants, blended finance mechanisms and revenue certainty schemes.
    - Demand certainty (which is critical to investor returns evaluations).
    - An appropriate enabling environment including access to sufficient skills, supply chain capacity and availability, supporting and efficient planning processes, and access to non-project specific infrastructure (e.g. grid connections and transport networks).
- **Public-private partnership.** Public finance institutions can play an important role in de-risking and scaling investment into the net zero transition, in particular for low-carbon technologies where market barriers subsist. The National Wealth Fund will be a key vehicle for de-risking and crowding private sector investment into the net zero transition and technologies of the future. The government must work with the UK's public finance institutions and financial and professional services industries to share expertise and co-create blended finance solutions that will be effective in de-risking and scaling low-carbon investments, and to efficiently connect investors with opportunities. Public funding must also be targeted more effectively towards areas involving emerging technology risk, areas where projects are logistically complex for private investors, and critical infrastructure that is strategic to economy-wide decarbonisation.

Capital Markets (including retail investment)

Question 5.8: Are there any barriers to growth in capital markets that are not being targeted by existing government reforms? How can private and public markets be grown so that they best support UK growth?

TheCityUK welcomes the government's recognition of pension investment as an important component of increasing growth in capital markets. To ensure economic activity and job creation remain in the UK the government needs to focus on revitalising both the supply and demand sides of UK capital markets.

Whilst the Mansion House speech delivered several important measures in this respect, we believe the government should maintain its focus on:

- Revitalising and broadening participation in UK public equity markets. TheCityUK will set out strategic enablers for the SME Growth Market in a paper which will be published in Q1 2025, which we will share with HM Treasury.
- Completing key reforms and maximising international engagement to promote UK public equity markets.
- Recognising the full capital market ecosystem that operates in London. Its multidimensional and multi-asset class nature sets it apart from most competing international financial centres and means the UK can leverage its leading financial market infrastructure to support the transition to net zero and be an international leader in clean energy. A market-led transition to a low-carbon economy will require access to liquidity, risk management services and new commodities markets that can and should be hosted in London.
- Addressing excessive risk aversion in the system which has created disproportionate layers of regulatory burden and an overly cautious approach to investment. TheCityUK welcomed the government's commitment to address the culture of prioritising cost over net value in the pension investment debate and the FCA review of the Value for Money Framework. If these reforms are delivered well, they are likely to play a key role in shifting the focus away from cost and toward net value.
- Incentivising the domestic supply of capital to support British businesses and infrastructure by:
    - Delivering pension reforms to both improve outcomes for pension savers and boost investment and growth in the UK economy.
    - Creating the conditions to support retail investors' access and confidence to invest in public markets equity and debt, broadening across society the wealth-sharing benefits of investing. Streamlining the interface between private and public markets and widening access to the UK's significant private markets will benefit both growth companies seeking capital and investors.
    - Giving serious consideration to removing - or at least tapering - stamp duty on trading of UK equities, for all UK investors. The UK is an outlier in applying this tax. In the US, for example, stamp duty is not payable and an Australian pension fund buying an Australian equity does not pay the equivalent of stamp duty. By imposing the tax on UK equities only, the government is making UK equities less attractive and poorer value than those of other jurisdictions[8].
- Improving liquidity in the markets by addressing the quality and availability of investment research.
- Driving global innovation and modernisation of capital markets.

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[8] The co-founder and chief executive of Revolut said it is "not rational" to float its shares in the UK over the US, citing share stamp duty as a factor. See https://www.thetimes.com/business-money/technology/article/revolut-boss-not-rational-to-choose-uk-listing-over-the-us-mc9v7b50w

- Developing a cohesive strategy and narrative for securities modernisation, bringing together dematerialisation, accelerated settlement and the DIGIT pilot.

Across the industry, several projects are being taken forward which will set out measures that the government can take to revitalise both the supply and demand sides of UK capital markets to enable further growth. TheCityUK is working with other trade associations to ensure that our work dovetails with others to provide the government with the clearest view of the outstanding barriers for UK capital markets. We would be happy to help the government convene key representatives across the industry to explore this in more detail.

Question 5.9: Are there any barriers to retail participation in UK capital markets? What more can be done to encourage consumers to invest in capital markets to a longer-term time horizon?
Several barriers prevent increased retail participation in UK capital markets including overly cautious and overly complex regulations (e.g. the current UK prospectus regime), including financial marketing rules (e.g. Conduct of Business Sourcebook and aspects of regulating markets in financial instruments (MiFID)), low financial literacy including poor understanding of which types of financial products/services meet which needs, and inadequate accessibility and comparability of market data/products. All of this is compounded by a lack of access to financial guidance and advice.

While TheCityUK believes that the government's focus on institutional investment is right, there is a need to divert some of its focus to retail (consumer) participation in investment. Unlike institutional investment, there have been no major policy or regulatory initiatives solely focused on individual investment.

The share of households in the UK that directly own stocks and shares has halved in the last two decades (from 23% in 2003 to 11% in 2022)[9]. It can be difficult to make comparisons with other markets as saving and investment behaviour can reflect a wide range of factors. However, it is notable that twice as many American households as British ones directly owned shares in 2022[10], and in Sweden 22% of households directly own stocks[11].

TheCityUK therefore recommends that the government democratise investment in the UK's capital markets by setting out a long-term strategy on retail participation to encourage and help a broader range of individuals benefit from the wealth creation that suitable investment delivers. The strategy should rebalance fiscal incentives, particularly those in the ISA regime, to encourage those with adequate levels of cash savings to invest. It should articulate the Money and Pensions Service's (MaPS) view that 3-6 months' worth of living expenses should be held in cash, and people should consider putting further savings into diversified investment funds that meet their risk appetite[12].

The strategy should support long-term programmes to improve financial literacy with adequate resources to create a future generation of individuals who are empowered and confident to take responsibility for their savings and engage in capital markets in a considered way. The strategy should set out the overarching public policy objectives to guide regulatory regimes, such as the Advice and

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[9] New Financial, 'Widening retail participation in equity markets', (September 2023), available at: https://www.newfinancial.org/reports/widening-retail-participation-in-equity-markets
[10] US Federal Reserve 'Triennial Consumer Finance Survey', (October 2023), available at: https://www.federalreserve.gov/econres/scfindex.htm
[11] New Financial, 'Widening retail participation in equity markets', (September 2023), available at: https://www.newfinancial.org/reports/widening-retail-participation-in-equity-markets
[12] How much to save for an emergency | MoneyHelper

Guidance Boundary Review (AGBR), to ensure the provision of targeted support in relation to investments.

Behavioural analysis should be used to inform a more differentiated attitude towards risk warnings. The language and guidance on the MaPS 'Money Helper' website emphasise the risks of investing and should be reviewed to ensure it does not inappropriately deter people who would benefit from investing. For example, research by the Investment Association shows that UK investment warnings are disproportionate to consumer warnings elsewhere, and have made consumers scared of, rather than appropriately aware of, the risks relative to the potential benefits of investing.

We will set out further thinking on retail investment in the paper referenced above, which will be published in Q1 2025 and which we will share with HM Treasury.

Insurance & Reinsurance Markets

Question 5.10: What are the barriers to insurers and reinsurers to growing their businesses and share of international markets?

We suggest HM Treasury consider the Association of British Insurers' response to this question.

Question 5.11: What are the barriers to innovation in the UK's insurance markets?

We suggest HM Treasury consider the Association of British Insurers' response to this question.

Asset Management & Wholesale Services

Question 5.12: What are the barriers to setting up and conducting business as a UK asset manager or conducting wholesale services in the UK?

We suggest HM Treasury consider the Investment Association's response to this question. Please note the content below on the UK's international wholesale markets.

Question 5.13: In what ways could the regulatory landscape for asset management or wholesale services adapt to the needs of organisations over the next 10 years?

We suggest HM Treasury consider the Investment Association's response to this question. Please note the content below on the UK's international wholesale markets.

Build on the strength of the UK's international wholesale markets

The government must consider the critical role of international wholesale financial markets in the UK's position as a leading international financial centre. This includes consideration of the key areas in which the UK is truly internationally competitive, as outlined in TheCityUK's [13] 'Key facts about the UK as an international financial centre'. For example, pages 9-15 illustrate the key international financial markets in the UK including banking, insurance, equity and bond markets, fund management, and derivatives and commodities trading.

[13] TheCityUK, 'Key facts about the UK as an international financial centre', (January 2024), available at https://www.thecityuk.com/media/vp1jlxxr/key-facts-about-the-uk-as-an-international-financial-centre-2023.pdf

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International wholesale financial markets provide transparent financial markets where market participants can manage price risk, access deep liquidity and price the world's most important commodities and financial instruments, while simultaneously having access to clearing and risk management services that contribute to global financial stability and security. The UK can leverage its world-leading financial market infrastructure, including supporting the domestic and international transition to net zero and positioning the UK as an international leader in clean energy.

The UK should ensure it has a competitive regulatory regime to attract and retain wholesale markets business. This is also important for related professional services firms, as activity related to corporate finance is a core revenue stream for non-financial firms including law firms and accounting firms. London is a global centre for legal services and English law governs many securities transactions and business advisory services.

While there is no universal definition of wholesale financial markets, their primary components include:

- A range of markets across capital, debt, derivatives, foreign exchange and commodities, each defined by the products and/or services it provides.
- Risk management.
- Clearing/transaction services and related infrastructure.

Without wholesale financial markets, important retail services such as pensions and mortgages would be more expensive and less readily available.

The government, regulators and industry must work in partnership to fully consider the differences between wholesale and retail customers. For example, the FCA's current rule review should build on its discussion paper on commercial and bespoke insurance business and consider the differences between wholesale and retail customers e.g. where firms can face uncertainty in clarifying whether they are in the scope of certain conduct rules.

We believe rules and guidance should be proportionate and reflect the resources and sophistication of the client.