Future Regulatory Framework for Finance

Civil Society Joint Statement

We, the undersigned, are involved in financial sector reform efforts, representing a wide spectrum of public interest groups. We welcome the government's commitment to build a financial sector that is Net Zero-aligned and acts in the interests of communities and citizens, creating jobs, supporting businesses, and driving sustainable economic growth across the country.

The Financial Services Future Regulatory Framework Review presents a major opportunity to improve the effectiveness and accountability of the rules that structure the industry, and that can help achieve these objectives. However, we are very concerned about some important aspects of the government's proposals and offer here six recommendations to strengthen the reforms. They relate to two areas: first, the purpose of regulation, and second, democratic accountability. Our position will be expanded upon within the submissions of individual organisations to the Treasury's consultation. This statement emphasises key points that we would like to make collectively.

Balanced Economy Project
Barrow Cadbury Trust
CLES – the national organisation for local economies
CfRC – Centre for Responsible Credit
Climate Safe Lending Network
Common Wealth
eccr – The Ecumenical Council for Corporate Responsibility
EIRIS Foundation
Fair By Design – Ending the extra costs of being poor
The Financial Inclusion Centre – Financial markets that work for society
fig – Financial Inclusion Group North Staffordshire
The Finance Innovation Lab
Greenpeace
Jubilee Debt Campaign
Macmillan Cancer Support
Make My Money Matter
New Economics Foundation
Positive Money
Responsible Finance
rspb – giving nature a home
ShareAction
Spotlight on Corruption
Stamp Out Poverty
Swoboda Research Centre
Tax Justice Network
TaxJustice.UK
The Equality Trust
Tipping Point
Transparency International UK
Transparency Task Force
University of Bristol
Uplift
Wellbeing Economy Alliance
Wellbeing Economy Alliance Scotland
wbg – Women's Budget Group

Our recommendations

1. The purpose of financial regulation should reflect that the role of finance is to serve the UK's economic, environmental, and social goals, and this should be expressed in the statutory objectives of regulatory institutions.

The ultimate purpose of financial regulation is to maximise the sector's contribution to the economic, environmental, and social goals of the UK (e.g. achieving net zero and limiting global warming to 1.5 degrees; levelling up). Globally, best practice in policymaking increasingly acknowledges the importance of focussing on the outcomes that the financial system is intended to produce.[1]

We agree with the government's assessment that the UK's regulatory regime could be strengthened in relation to climate change. However, we believe that these proposals fall short of what is required to "rewire the global financial system for net zero".[2] Regulators currently acknowledge the potential for climate change to create catastrophic financial risks, but they are failing to address the fact that financial services firms bring about environmental harm. For instance, UK banks, asset managers, and other financial institutions are responsible for nearly double the UK's annual carbon emissions[3] and have direct links to rainforest deforestation.[4] Tackling climate change and biodiversity loss are critical outcomes that regulators should prioritise on their own terms for the government to be able to deliver on its commitments regarding climate change and a 'nature positive' future.[5] The government's proposal would require regulators only to 'have regard to' the principle that economic growth should be consistent with the UK's 2050 Net Zero target. We argue that regulators should have a statutory objective that requires them to take action to help achieve the UK's emissions reduction targets and fulfil the Paris Agreement commitments of limiting global warming to 1.5 degrees.

Recommendation 1: Introduce statutory objectives that oblige regulators to align the financial system and its regulation with the 1.5 degrees temperature goals of the Paris Agreement, and include provisions for nature.

Financial inclusion is another key area in which the UK could show international leadership, through a focus on outcomes. It is unacceptable that the market systematically excludes people from accessing financial products and services that are essential to participating in society. For example, with the rise of fintech and 'personalised' services, insurance has become harder to access for people in poverty or facing vulnerable circumstances.[6] To address this problem, regulators must be given a mandate to take responsibility for ensuring that the financial system is inclusive.

Recommendation 2: Introduce a statutory duty for regulators to promote financial inclusion. At a minimum, this could happen by introducing a cross-cutting 'must have regard to' financial inclusion to the Financial Conduct Authority's remit.

1. Dikau and Volz (2021) 'Central Bank Mandates, Sustainability Objectives and the Promotion of Green Finance'. https://www.sciencedirect.com/science/article/pii/S092180092100080X
2. edie (2021) 'COP26: Rishi Sunak vows to make UK "world's first net-zero financial centre"', 3 November. https://www.edie.net/news/11/COP26--Rishi-Sunak-vows-to-make-UK--world-s-first-net-zero-financial-centre-
3. Greenpeace UK and WWF UK (2021) 'The Big Smoke: the global emissions of the UK financial sector'. https://www.greenpeace.org.uk/news/uk-banks-and-investors-responsible-for-nearly-double-the-uks-annual-carbon-emissions-report-finds/
4. WWF (2016) 'Banking on the Amazon: How the finance sector can do more to avoid tropical deforestation'. https://www.wwf.org.uk/sites/default/files/2016-11/Banking%20on%20the%20Amazon%20(English)%20-%20WWF%20Nov%202016.pdf
5. HM Treasury (2021) 'Government commits to nature-positive future in response to Dasgupta review', 14 June. https://www.gov.uk/government/news/government-commits-to-nature-positive-future-in-response-to-dasgupta-review
6. Fair by Design and Institute and Faculty of Actuaries (2021) 'The Hidden Risks of Being Poor: the poverty premium in insurance'. https://www.actuaries.org.uk/system/files/field/document/IFoA_Hidden_Risks_of_Being_Poor_Final.pdf

We strongly oppose the government's proposal to introduce statutory objectives for regulators to promote the 'international competitiveness' of the industry. There are many organisations whose job it is to promote financial services, including the City of London's Lord Mayor and industry associations, not to mention the firms themselves. Asking regulators to take on this task risks eroding their independence. Balanced input from industry and civil society advocates, with the regulators acting in the public interest and maintaining independence, is more likely to produce well-designed regulation that delivers better outcomes.

A duty to promote the growth and international competitiveness of industry will also put UK regulators in a dangerous competition with regulators globally to water-down standards. Just a decade ago, UK parliament acknowledged that a focus on competitiveness by regulators had contributed to the global financial crisis 2007/08 – the cataclysmic event that cost the world economy $10 trillion[7] and saw millions lose their savings, homes, and jobs. In the words of the Bank of England's Andrew Bailey in 2019, when he was CEO of the Financial Conduct Authority, the regulator "was required to consider the UK's competitiveness, and it didn't end well, for anyone". The Chancellor's laudable aim for the UK to be the world's first net zero financial centre would be undermined if the risk of instability deterred the private investment urgently required to fund a just climate transition.

Recommendation 3: Do not introduce a statutory objective, not even a secondary one, for regulators to promote the growth of the finance industry or its 'international competitiveness'.

2. The future regulatory framework must provide for a step-change in public accountability to match the heightened powers of regulators and the executive.

Under the government's proposals, the power of the executive and regulators would increase significantly. The policy framework would be overseen by the Treasury, using opaque secondary legislation. Within the bounds of this framework, regulators would have more authority to make and amend rules and oversee implementation. We agree that regulators need to be able to act with greater flexibility and agility. However, we are very concerned that without significant improvements in accountability and transparency to the public, the proposed set-up could facilitate untransparent lobbying that steers policy away from the public interest.

Robust parliamentary scrutiny is necessary for democratically-accountable financial sector policymaking. Given the size and importance of the finance sector, and the extent of the changes underway, to be effective such scrutiny will require the dedicated attention of a new committee, supported with significant independent resource (similar to how the Public Affairs Committee is supported by the National Audit Office). This committee should be able to debate any new legislation, probe the selection of senior leaders appointed to regulatory institutions, have the capacity to respond to regulatory consultations, and undertake reviews of the effectiveness and impacts of regulation. Critically, this committee should represent all facets of public interest in the financial sector and not be dominated by representatives with ties to the finance industry, as that would pose a conflict of interest.

Recommendation 4: Empower and adequately resource a new financial services joint committee of parliamentarians from both houses to provide in-depth scrutiny over legislation and regulation.

Transparency is also central to creating democratically accountable financial sector policy. It is a prerequisite for stakeholder engagement, to combat corruption, and ensure public trust. When a lack of transparency over lobbying leads to policy outcomes that benefit only well-funded or well-connected interest groups, millions or even billions of pounds-worth of taxpayers' money can be put at risk. It is therefore

7. Chatham House (2018) 'The Lasting Effects of the Financial Crisis Have Yet to Be Felt', 12 January. https://www.chathamhouse.org/2018/01/lasting-effects-financial-crisis-have-yet-be-felt

critical that the UK government develops a policy that provides for transparency regarding lobbying activities in the finance sector and beyond. Such policies would bolster the UK's international reputation for financial integrity and should not be seen as a hindrance; and they would bring the UK up to the standard of countries like the US and Ireland, which already have more stringent lobbying regulations in place than the UK.[8]

Recommendation 5: Require statutory registration of all lobbyists, disclosure of lobbyists who previously have been public officials involved in developing finance policy, and require all lobbyists to report monthly on their communications with government, including written communications.

We agree with the government that "any policymaking process risks being deficient if it does not draw sufficiently on the views, experience and expertise of those who may be impacted by regulation". Following withdrawal from the EU, the UK has an opportunity to demonstrate leadership in addressing the gross imbalance in stakeholder engagement with financial regulation by public interest groups (including consumer groups, civil society organisations, and groups representing SMEs) versus industry representatives. As few as 10% of submissions to EU agency public consultations represent non-business interests.[9]

The consultation raises statutory panels, which are one key method for stakeholders to input into regulation. The government should build on its proposals to increase the transparency of the panels by ensuring that the voices of consumers and citizens are given at least equal weight to the voice of industry. Of the FCA's panels, just one is for consumers – the Financial Services Consumer Panel. The Prudential Regulation Authority, meanwhile, has no public interest panel at all.

Recommendation 6: Require the FCA's and PRA's statutory panels to consist of a maximum of 50% industry representatives and at least 50% public interest representatives. As part of this, a duty should be placed on the PRA to consult the public, not just firms (amending FSMA s136), including via a new statutory panel. Resources should be provided to enable public interest groups to participate.

8. Transparency International UK (2021) 'Understanding Access and Potential Influence in Westminster'. https://www.transparency.org.uk/uk-lobbying-issues-access-influence-westminster
9. Beyers and Arras (2020) 'Who Feeds Information to Regulators?'. https://www.cambridge.org/core/journals/journal-of-public-policy/article/who-feeds-information-to-regulators-stakeholder-diversity-in-european-union-regulatory-agency-consultations/C2FC172CF9AB3C4AEBA606D9F3A81372

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Tipping Point UK
Transparency International UK
Transparency Task Force
University of Bristol's Personal Finance Research Centre
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