

Responding to the Financial Sector Growth and Competitiveness Strategy consultation: briefing for green groups

November 2024

The government is consulting on a 'Financial Sector Growth and Competitiveness Strategy' as part of its aim to grow the sector

The government is currently developing an Industrial Strategy, and in October published an [Industrial Strategy Green Paper](#). The objectives of the Industrial Strategy will be to support overall economic growth, as well as net zero, regional growth, and economic security and resilience.

The Green Paper lists 8 sectors of the economy that the government aims to grow, which includes both Clean Energy Industries and Financial Services. As the next step in developing the Industrial Strategy, the government is producing 'Sector Plans' for each of the 8 sectors. The final strategy and all sector plans will be published in Spring 2025.

A call for evidence has been published to inform the plan for the finance sector, which will be named the [Financial Sector Growth and Competitiveness Strategy](#). The proposals are heavily focused on increasing the overall size and competitiveness of the finance sector, and though sustainable finance is highlighted as a growth opportunity for the financial sector, the strategy omits any mention of shifting finance away from harmful activities as a whole. **The deadline to respond is the 12th December 2024.**

Key issues with the proposal for the Financial Sector Growth and Competitiveness Strategy

1. An even bigger financial sector will make it harder to grow the types of activities in the economy that we need for a just and green transition

Research has shown that beyond a certain size, a bigger financial sector can negatively impact other sectors of the economy – this is known as the 'finance curse'.

A bigger financial sector draws people and resources away from other sectors, such as the new industries we need to grow in order to transition to clean energy. It also extracts rents from households and firms, increases indebtedness, and leads to excessive risk-taking and greater risk of financial crises, the costs of which are borne by the public.

As well as making a green transition harder by negatively impacting the economy overall, this drives inequality, and makes it harder to ensure that households are resilient to climate impacts and that the benefits of a green transition are felt by everyone.

2. Seeking to increase the international competitiveness of the financial sector encourages a race to the bottom in deregulation

The proposal emphasises the role of regulation in supporting the international 'competitiveness' of the UK financial sector. This does not mean increasing competition

between firms, but to the ability of UK firms to attract business from overseas. The financial sector has long used the notion of 'competitiveness' to push for de-regulation.

As Andrew Bailey (then CEO of the FCA, today Governor of the Bank of England), said in 2019, prior to the 2008 financial crash, the regulator "was required to consider the UK's competitiveness, and it didn't end well, for anyone."

It is now well known that the climate and nature crises also pose major risks to financial stability. The financial sector is also fuelling these crises by financing damaging activities, and current regulation is not sufficient to prevent this. Pushing for regulators to enhance the sector's 'international competitiveness' is therefore hugely risky to both our economy and to our planet.

3. The proposal does not mention the need to wind down the financial sectors support for environmentally harmful activities

The UK financial sector continues to finance activities that undermine climate and nature goals. In 2023, the 5 largest UK banks' provided almost £39 bn for fossil fuels. Almost a third of this for fossil fuel expansion, yet we know we cannot expand fossil fuels whilst meeting climate goals ([source](#)). UK banks also provided over £1 bn to companies linked to deforestation from 2022–24 ([source](#)), despite the global agreement signed at COP26 to halt and reverse deforestation by 2030.

The government's industrial strategy green paper states that all sector plans will be aligned with net zero and environmental objectives, but how this will be ensured is missing from the proposals for the financial sector.

The government made a manifesto commitment to introduce mandatory 1.5-aligned transition plans for financial institutions, however these have not yet been introduced and this commitment is not reiterated in the proposal. The government instead announced that they will consult in Spring 2025 on how to move forward with transition plans.

What's needed:

- *Instead of aiming for overall growth of the financial sector, the government should be trying to grow the sector's support for the real economy (including green industries), and steering financing away from speculative and non-productive activities.*
- *Instead of trying to increase the international competitiveness of the financial sector, the government should aim to make it more diverse, such as by increasing the proportion of stakeholder-owned banks like mutuals and co-operatives.*
- *The government must make sure that a plan for the financial sector prioritises aligning it with climate and nature targets. This means swiftly introducing the commitment to introducing mandatory 1.5 degree aligned transition plans for financial institutions, and committing to further steps to wind down financing for the most damaging activities like fossil fuel expansion and deforestation.*

How to respond to the consultation

The call for evidence invites views on how the financial services sector is currently operating and any potential reforms required, as well as asking specific questions.

The consultation encourages a broad range of stakeholders to respond, including consumer groups and academics.

You can [read the full call for evidence here](#) and submit a response via [this survey](#) or by emailing FSGrowthStrategy@hmtreasury.gov.uk.

Particular questions you may wish to respond to include:

- Question 3.1: Do you agree with the proposed objectives set out in paragraph 3.6?
- Question 4.3: How well is competition currently working in the financial services sector, and how can it be improved?
- Question 4.6: What is your assessment of the UK's current regulatory environment?
- 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?
- 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?
- 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?

For more information or to arrange a briefing, please contact Ellie McLaughlin at ellie.mclaughlin@positivemoney.org.uk.