

# Responding to the Financial Sector Growth and Competitiveness Strategy consultation: briefing for consumer 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 Financial Services. As the next step in developing the Industrial Strategy, the government is producing a 'Sector Plan' for each chosen sector.

**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 deadline to respond is the 12th December 2024.** The proposals are heavily focused on increasing the overall size and competitiveness of the finance sector, with little focus or clarity on how the needs and protections of citizens and consumers will be improved.

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

- 1. The UK financial sector does not adequately serve the real economy, particularly small businesses and consumers, and seeking to grow the sector even more would make this worse**

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'. An outsized financial sector draws people and resources away from other sectors, 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.

The UK's banking sector is unusually concentrated, dominated by a small number of shareholder-owned banks for which lending to small businesses is unattractive as it often entails small loans with high transaction costs. As a result, banks lend more to other financial institutions (for speculative activities and for the purchase of existing assets like housing) than they do to businesses. The same incentives lead banks' to reduce in-person bank branches to cut costs, and over 6,000 UK bank branches have been closed since 2015. A bigger financial sector will not solve this problem.

- 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 regulators in supporting the international

‘competitiveness’ of the UK financial sector. This does not mean increasing competition between firms (which can drive better outcomes for consumers), but refers to the ability of UK firms to attract business from overseas.

The financial sector has long used the argument of ‘competitiveness’ to lobby for de-regulation, which has led to weakening of rules designed to increase the resilience of the sector from financial crises (the costs of which are borne by wider society). 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.”.

This argument has also been used to weaken consumer protections and climate and environmental regulation. It is now widely understood that environmental crises pose major risks to financial stability, and that the financial sector is fuelling these crises by financing damaging activities. Current regulation is not sufficient to prevent this, and the strategy makes no mention of how this will be addressed, despite stating that all sector plans will be net zero aligned.<sup>1</sup>

### 3. The proposal sidelines consumer protection and financial inclusion

The proposal states that issues surrounding financial inclusion, consumer protection and economic crime will be addressed separately to the growth and competitiveness strategy. But an inclusive and safe financial sector (as well as one that supports businesses and is aligned with net zero and environmental objectives, as outlined above) should be considered key measures of success for a financial sector, and so should be central aims for the industrial strategy.

#### *What’s needed:*

- *Instead of aiming for overall growth of the financial sector, the government should be trying to increase the sector’s support for the real economy, including green industries, and reducing financing of speculative and non-productive activities.*
- *Instead of aiming for ‘international competitiveness’ of the financial sector, the government should aim to make it more diverse and increasing competition within the sector, such as through increasing the proportion of stakeholder-owned banks like mutuals and co-operatives.*
- *The government should make sure that a plan for the financial sector prioritises the related aims of aligning the sector climate and nature targets, increasing financial inclusion and safeguarding consumer protection, all of which should be seen as measures of a successful financial sector.*

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<sup>1</sup> 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 proposal 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.

## 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](mailto:FSGrowthStrategy@hmtreasury.gov.uk).

Specific 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?

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