Tackle a looming threat to UK prosperity

**Background:** HMT’s Financial Services Future Regulatory Framework Review is a ‘once in a generation’ chance to improve the rules for UK financial services, to support the government’s vision for a financial sector that creates jobs, supports businesses, and drives sustainable economic growth for communities and citizens across the UK. A flagship proposal is to give financial regulators (the FCA and PRA) statutory objectives to promote the “international competitiveness” of the industry.

This should be **strongly opposed**, since the model of “competitiveness” being pursued will damage the UK economy, even while benefiting parts of the financial sector. It will return us to risky policies that helped cause the last global financial crisis, and force us to lower standards in an effort to “win” a regulatory race to the bottom with other countries. New efforts to water down ‘ring fencing’ public safety protections for banks in the name of “competitiveness” are a case in point.

The UK government, including in this Review, openly acknowledges tension balancing competitiveness objectives against other public-interest goals. FCA Chair Charles Randell noted: “It would be a big ask of our society to say that the interests of consumers . . . and market integrity should be traded off against the interest of the financial services sector.” Statutory objectives need to benefit the whole UK economy, not just a part of it.

UK finance already has many capable lobbyists: there is no need to support them by hobbling regulators with a competitiveness objective. This objective would, among other things:

**Sow the seeds of new financial crises:** In 2012 UK parliament acknowledged that regulators’ focus on competitiveness contributed to the Global Financial Crisis of 2007/08 – which saw millions lose their savings, homes, and jobs, and cost an estimated £1.8 trillion in lost GDP from (p10). As Andrew Bailey said in 2019 (then CEO of the FCA, today Governor of the Bank of England), the regulator “was required to consider the UK’s competitiveness, and it didn’t end well, for anyone.”

**Harm national security.** A competitiveness objective generates pressure to relax enforcement and policies, so as to attract dirty money from overseas. This poses national security risks. For example, parliament’s Intelligence and Security Committee said that our pursuit of Russian dirty money gives oligarchs “connections at the highest levels with access to UK companies and political figures” and has turned some finance-linked UK professionals into “de facto agents of the Russian state.”

**Undermine leveling-up.** A competitiveness objective to prioritise UK finance over other parts of the economy will benefit relatively few people, mostly in and around London, while weakening other parts of the country. For example, recent cuts to the surcharge tax on bank profits in the name of competitiveness, offset with national insurance rises for workers, will transfer net wealth from left-behind regions to the metropolis - and to shareholders, many overseas or offshore.

**Undermine Net Zero:** A ‘competitiveness’ objective will undercut the Chancellor’s laudable aim to be the world’s first net-zero financial centre. By incentivising a relaxation of standards so as to maximise financial flows, it risks promoting ‘greenwashing’.

Overall, a competitiveness objective seeks to increase UK finance’s power at the expense of other areas. It will reduce prosperity, unbalance our economy, and harm stability, resilience and national security.