

FINANCING GROWTH:



Labour's plan for Financial Services



OVERVIEW



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Labour's Shadow Chancellor Rachel Reeves and Shadow City Minister Tulip Siddiq yesterday set out Labour's plan for financial services, entitled *Financing Growth - a policy review setting out how a future Labour government would promote and regulate the UK's financial services sector*.

The review, which is broad in scope covering retail and wholesale financial services sector - including banking, consumer credit, fintech and AI, capital markets, pensions, and insurance - has been drawn up with advice from City grandees, such as Sir Douglas Flint (Aberdeen), Dame Elizabeth Corley (Schroders), Nigel Higgins (Barclays), Sir John Kingman (L&G) David Schwimmer (LSEG) and Shriti Vadera (Prudential).

The review comes ahead of Labour's Business Conference, a coordinated effort to set out Labour as the party of business ahead of the general election. The overarching theme of the review, which Rachel Reeves set out in the introduction, was that Labour would "unashamedly champion" Britain's financial services sector, given its importance in helping to deliver Labour's first 'mission' in government - ("to secure the highest sustained growth in the G7, with good jobs and productivity growth in all parts of the country")

Media headlines have already focused on Labour's decision not to restore cap on bankers' bonuses (a policy not in the review itself, but in Rachel Reeves accompanying statements). Reeves is unlikely to be unhappy with these headlines, as the issue neatly demonstrates a clean break with previous Labour

leadership regimes and their attitudes towards the sector (not just with Jeremy Corbyn's leadership, but also with Ed Miliband's, who previously labelled sections of UK financial services as 'predators').

Overall, Labour has refrained from offering any moral judgement about the role of City and there is no 'clamping down' style threats on specific sectors. Even in areas which have encountered controversy (e.g. Buy Now Pay Later), Labour has expressed commitment to working with providers to implement new regulation. Labour has also here appeared to embrace all aspects of fintech innovation, including 'securities tokenisation' (their preferred terminology for financial assets linked to blockchain technology, such as crypto and digital assets), which they aim to make the UK a global hub for.

Where Labour do focus, however, is on how UK financial services can support its broader economic and social objectives, such as promoting 'inclusive growth' (investment across the UK outside London), greater financial inclusion and expanding the role of mutuals. Labour has also strongly emphasised their commitment to net zero and enhancing the role of sustainable finance, contrasting themselves with the perceived 'inconsistency' on net zero policy from the current government.

For those familiar with the details of financial services regulations, many of the recommendations contained in this report are not particularly new or radical. A lot of the proposals build on a range of existing government or independent reviews - such as Kalifa Review of fintech and Lord Hill's Listings Review - some of which have not been fully implemented. On some issues, such as capital markets reform, Labour has not offered a widely different diagnosis from the current government, agreeing with concerns about the lack of institutional investment in UK equities. Where Labour is confident of providing a distinction with the current government, however, is through their ability to provide the stability and long-term approach in government to see these reforms through.



SUMMARY OF KEY RECOMMENDATIONS

1. INCLUSIVE GROWTH

- > Labour wants to see more of these benefits of financial services spread across the UK, through enabling the growth of regional financial centres alongside London and Edinburgh.
- > Work with British Business Bank (BBB) regional funds to provide greater access to SME financing across all regions.
- > Ask the Office for Investment to act as a support unit for international financial services firms looking to set up operations in the UK.
- > Consider role of place-based impact investing models to crowd in more private finance to fund development of cities and regions.
- > 'Double the size' of the UK's co-operative and mutual financial services sector through modernised legislation and working with regulators to ensure a 'level playing field'.

2. INTERNATIONAL COMPETITIVENESS REGULATIONS

- > Pursue a more joined up and innovation-centred approach to regulation and supervision - identify overlaps in regulatory mandates across PRA, FCA, Competition and Markets Authority, The Pensions Regulator, and Payment Systems Regulator (PSR) and promote transparency on regulator performance.
- > Uphold the ring-fencing regime for banks.
- > Streamlining the FCA regulatory rulebook (while also ensuring the outcomes of the Consumer Duty)
- > Promoting UK's financial services sector internationally, expanding the UK's agreements with international financial centres to increase financial services trade.
- > Build a more collaborative relationship with the EU, building on the UK-EU Financial Services MoU. Explore opportunities to reduce barriers to trade in areas where our regulations deliver similar outcomes (such as cross-border clearing).

3. CONSUMER PROTECTION AND FINANCIAL INCLUSION

- > Greater action on fraud - adopting an integrated approach across government, law enforcement, regulators, financial services firms, and tech companies.
- > Regulating the Buy Now Pay Later (BNPL) sector.
- > Roll out 'banking hubs' which will help people have free access to cash and wider banking services.
- > Reform financial advice and guidance to help people manage their finances, leverage data and emerging technologies like AI to produce widely accessible and affordable financial guidance tools.
- > Create a national financial inclusion strategy, led by a Treasury minister with representation across government, regulators, arms-length bodies, civil society, and industry.
- > Encourage increased offering of longer-term fixed rate mortgages.
- > Encourage greater saving, with a review the legislative and regulatory barriers to enabling a more widespread roll out of innovative savings programmes.



SUMMARY OF KEY RECOMMENDATIONS

4. SUSTAINABLE FINANCE

- > Reinforce UK's role as a global hub for green finance activity. Ensuring UK's leadership role on the issue through G7, G20 and International Platform on Sustainable Finance (IPSF).
- > Deliver a world-leading green finance regulatory framework:
 - Require financial institutions and FTSE 100 companies to publish their carbon footprint and adopt credible 1.5-C aligned transition plans.
 - Advance the plans for the UK Green Taxonomy.
 - Fulfil the UK's commitment to the Sustainability Disclosure Requirements aligned with International Sustainability Standards Board standards and the Transition Plan Taskforce (TPT) disclosure framework.
 - Explore potential for nature-related finance through building on the work in the voluntary carbon markets and natural capital public-private partnerships.
 - Extend the use of covered bonds for green assets to allow banks and insurance companies to borrow and lend more cheaply for net zero infrastructure.
- > Partner with the financial services sector to support greening the housing stock, expand offering of financial products for insulation, heat pumps, and solar panels, as well as green mortgages.

5. INNOVATION AND FINTECH

- > Set international standards for the use of AI in financial services (Labour is currently developing a separate AI strategy)
- > Deliver the next phase of Open Banking, defining a roadmap for Open Finance by expanding the system to consolidate data from mortgages, pensions, insurance, and more.
- > Make the UK a global hub for 'securities tokenisation' -- Labour's preferred terminology for financial assets linked to blockchain technology (e.g. crypto and digital assets) and create a UK central bank digital currency.
- > Establish a regulatory sandbox for financial products to reach underserved communities.

6. CAPITAL MARKETS AND PENSIONS

- > Undertake an in-government pensions and retirement savings review (covering DB, DC and public sector), which will evaluate whether the current framework will deliver sustainable retirement incomes for individuals. It will also tackle the barriers to pension schemes investing more into UK productive assets.
- > Enable greater consolidation across all pension and retirement saving schemes. For defined contribution schemes, Labour will give The Pensions Regulator new powers to bring about consolidation where schemes fail to offer sufficient value for their members. For Local Government Pension Schemes, a Labour government will evaluate different models for pooling, including increasing in-house fund management capacity at the pool level
- > Empower the British Business Bank with a more ambitious remit - for example, allow it to support more lending at scale by challenger banks and small business lenders.
- > Establish a British 'Tibi' scheme (Modelled on the French 'Tibi' scheme) - an opt-in scheme for DC funds to invest a proportion of their assets into UK growth assets - split between venture capital, small cap growth equity, and infrastructure investment
- > Encourage investment of unlocked capital from Solvency UK into British infrastructure and green industries
- > Support increased retail participation in capital markets, delivering a modern 'Tell Sid' campaign for retail ownership. Also simplify the ISA landscape.

FIND OUT MORE

To find out more about how you can prepare for a potential Labour government, get in touch with one of the team:

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