Barclays Response to HM Treasury's Call for Evidence – Financial Services Growth & Competitiveness Strategy

12 December 2024

Introduction

At Barclays we welcome this Call for Evidence on Financial Services Growth & Competitiveness Strategy (the 'Strategy'), which if implemented effectively will help drive growth and opportunity across the UK financial services sector.

Global geopolitical shifts have led to a multipolar world, and we are now in a period of challenged security and disrupted trade. In that world, having a strong financial sector is a vital national asset, a considerable economic advantage and part of sovereign resilience. This should underpin thinking about strategy for the future of the sector. We look forward to working in partnership with HM Treasury to help develop this strategy which we believe could help define the future prosperity of the UK financial services sector.

In response to this Call for Evidence, Barclays would like to make three overarching points:

1. **Purposeful regulation and the role for government**

Regulation will be central to ensuring swift innovation that supports efficiency and growth in the UK economy, in financial services and elsewhere in the economy. For finance, regulation has a particularly important role in providing the conditions for the risk taking and risk sharing that support corporate and personal investment. As this response explains, the two crucial areas for financial services are the consumer conduct regime, which at present risks becoming a disincentive for the investability of the sector due to the unpredictability of the regime, and capital markets, where there is wide recognition that there remains fragility in UK public markets with an ecosystem which does not yet fully support growth firms who ultimately join public markets. Furthermore, in a period of intensive technological innovation that can deliver significant benefits for the provision of financial services into the economy, regulation is central to enabling innovation that inspires confidence in clients and customers. Concrete and credible industrial policy needs to reinforce the most competitive UK growth sectors and stimulate interest among investors – including directing relevant regulators to approaches that actively create space for innovation and early growth.

Government has a critical role in shaping and giving purpose to regulatory frameworks both domestically and internationally, and more widely by providing direction in policy to support investment that in turn supports its missions. For example, leadership and direction on how the Government intends to move the UK to net zero, along with leadership on financial frameworks to support that investment, will create the conditions for the UK's finance sector not only to play its part in the transition to net zero, but strengthen its position as a leading international centre for transition finance.

A stable regulatory regime and a proactive and ambitious Government driving forward a concrete set of priorities for investment, enables businesses and citizens to invest with confidence and will attract international investment into the UK. In addition, to enable a level regulatory playing field for banks and non-banks and thus, better customer and investor outcomes, a 'same activity, same risk' approach should be adopted for regulation across financial services sub-sectors.

2. **International leadership in driving global regulatory coherence:**

The Strategy should consider global regulatory coherence, while enabling the UK to retain its leading position in high growth areas like digital innovation and sustainable finance. Cross-border regulatory fragmentation is a barrier for multinational financial services and to maintain the UK's position as a global financial centre, reducing regulatory fragmentation should be prioritised, alongside international trade engagement.

This can be done by UK Government and regulatory fora taking an active and leading role via international standard setters like the Financial Stability Board or international groups like the G7 and the G20 to broker consensus in financial services policy areas where consensus can be found, as well as by ensuring UK rules implementing global standards do not make it an outlier when compared to other key jurisdictions. In areas where divergence is likely, for instance, on crypto assets policy or sustainability, this should be recognised early, and mitigating strategies should be adopted to enable UK financial services to compete in a fragmented world.

3. **Stable market conditions, creating the right integrated framework and clarity in capital markets and consumer protection:**

The Strategy should foster confidence in UK market conditions in which financial services firms operate. The compounding elements making up the Strategy should be well integrated. This is imperative as what action is taken on for instance, one element of the strategy (digital, AI, energy, infrastructure), will in turn have an impact on others, like banking. All sub-sectors and elements of the strategy should work together in order to foster financial services growth, competitiveness, as well as be sustainable in the road to net zero. The Strategy should recognise the contribution of banks (and the finance provided by banks to companies) to UK growth and competitiveness by including banking as a key pillar, especially with respect to the critical role capital markets play in supporting economic growth.

For a strong UK financial services industry, it is integral that all financial services customer and client categories, including UK capital markets, have the confidence and support to start a business and see it grow. This would allow them to benefit from UK key strengths of central time zone, renowned legal and professional services and access to talent. To attract financial services firms and employees alike, the Strategy should build a competitive offer by reducing skills gaps, increasing access to talent, and improving tax and capital requirements frameworks - all considerations in location decisions.

One of the goals of the Strategy should be to seek a positively reinforcing relationship between capital markets and economic growth: capital markets reform will not in itself galvanise growth, but the UK capital markets must be put to work for UK companies and savers by:

- Increasing the quantum of available investment for risk assets generally and specifically for UK growth assets.
    - This should include increasing UK shareholders' investment in the UK's own infrastructure.
- Democratising access to more vibrant UK markets for UK savers.

Work should be done to scale the 'investment shortfall' for listed UK growth equities alongside the analysis set out in 'Start-Up, Scale-Up' at the growth capital stage. The UK should have an ambition to be the most efficient market in the world (or alongside the US) in terms of cost and price discovery.

A key strategic issue in the UK financial services policy space for the next decade as it relates to market conditions, is stability and clarity in consumer protection which supports appropriate risk taking and investment. Uncertainty and a lack of clarity in the regulatory framework for consumer protection can impede growth and competitiveness of the financial services market in the UK, as financial services require stability and predictability on how to apply the regulatory regime (for instance, embedding the secondary objective, modernising the Financial Ombudsman Service (FOS) redress framework). Enabling financial services to comply with fair and clear consumer protection rules in a timely manner will lead to better customer outcomes and create the right market conditions for financial services growth and competitiveness.

We believe the above points are key to an effective Financial Services Growth & Competitiveness Strategy that helps drive growth and opportunity across the UK financial services sector.