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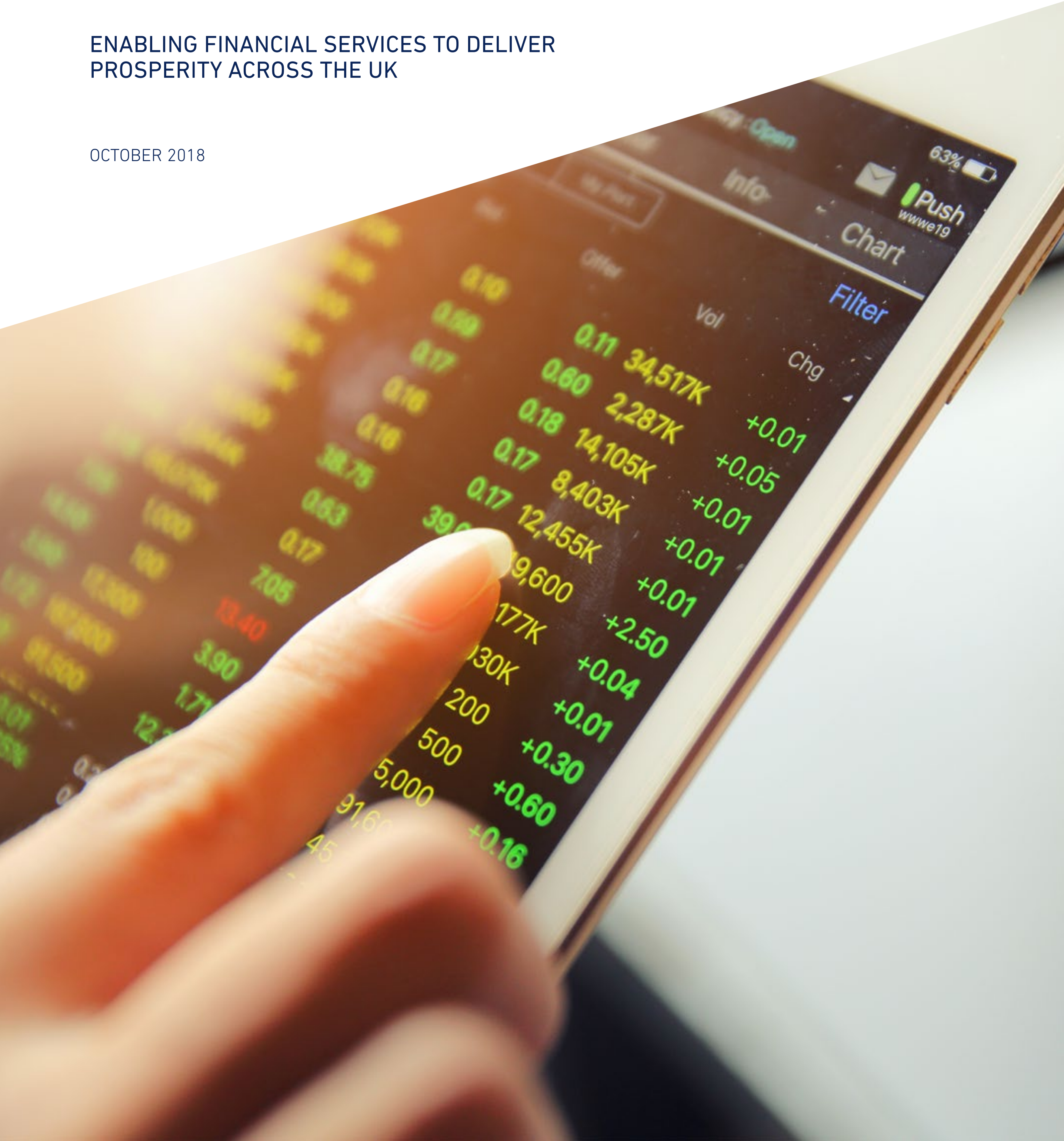
FUNDING OUR FUTURE

ENABLING FINANCIAL SERVICES TO DELIVER PROSPERITY ACROSS THE UK

OCTOBER 2018



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“The sector contributed over £72bn in taxes last year - equivalent to almost half of the NHS Budget.”

FOREWORD

Financial services matter, both for the whole economy and in their own right. From helping risks to be managed, wages to be paid, and payments to be made, financial services is an essential enabling industry.

The products and services provided by this critical sector keep the economy moving, driving prosperity and boosting productivity. Along with providing 1.1 million high-skilled, productive jobs across the regions, the sector contributed over £72bn in taxes last year - equivalent to almost half of the NHS Budget. Yet the UK's vibrant world-leading sector faces a host of challenges. It is vital that the UK retains its long-term attractiveness as a place to do business and preserving the competitiveness of financial services is key to the UK's global competitiveness.

While Brexit dominates the headlines, the research for this report has revealed a complex picture of a sector grappling with rapid technological change alongside new risks, new entrants and customer demands. If the UK is to remain a globally competitive centre, it needs an agile and robust tax and regulatory regime that continues to be match fit to deal with these challenges. The CBI hopes this report makes a valuable contribution to current debates about what the future of UK financial services should look like, realising its potential as a tool for future economic ambitions in all regions and devolved nations. By putting customers first, engaging actively on the global stage and embracing innovation the UK can seize the opportunities presented by getting our financial services strategy right.

Rain Newton-Smith
Chief Economist

EXECUTIVE SUMMARY

Financial services provide a vital platform for growth across the whole economy. Whether it is the products and services provided, or its contribution in terms of jobs, tax revenues and innovation, the financial services sector matters to the health and prosperity of the UK economy. By seizing the opportunities presented by technology as well as getting the UK's financial services strategy right, the sector will be better placed to support future growth to support future growth in all regions and devolved nations.

The UK economy continues to suffer from sluggish productivity growth. This matters because productivity is the foundation of wages, living standards, and prosperity. For the UK to have more sustainable growth, better standards of living and greater global competitiveness, it needs improved productivity growth. More productive UK businesses can pay their staff more, grow faster and invest more effectively, driving the whole economy forward.

Businesses right across the economy rely on enabling industries that allow products, services, people, information and capital to move around. Improving the productivity of such enabling industries will therefore drive growth across the whole economy.

Financial services matters, both for the whole economy and in its own right

Financial services is a pivotal enabling industry. Through its products and services, the sector supports economic growth right across the UK, from enabling businesses to finance growth and manage their risks, to paying their staff and suppliers. With over 1.1 million people working directly in the sector across every region and nation of the UK,[1] financial services contributed over £72 billion in taxes last year – 11% of total UK Government tax receipts.[2] This is equivalent to almost half the planned NHS Budget across the whole UK.

The UK is a world-leader in financial services, a sector which is transforming rapidly as it adopts new technologies to serve its customers better. It is an industry we all have a stake in through the products and services we use in our daily life. For example, the UK's insurance and pension sector provides pensions to 21 million people and insures the contents of 20 million homes across the UK.[3]

A changing environment, driven by technology, requires a tax and regulation regime that can keep pace

In completing this report, the CBI engaged with over 80 financial services members of every size across every region and nation of the UK, as well as leading sector associations. It has also discussed with non-financial services members their experience as customers of financial services. A complex picture has emerged of a sector grappling with technological change, shifting regulatory expectations and tax policy, as well as emerging risks,

particularly around cybersecurity. This vibrant sector has made significant strides to rebuild trust with customers, whilst innovating to deal with evolving customer needs and expectations of financial products and services.

The UK government and regulators have been working actively with financial services firms to tackle developments such as the increasing importance of FinTech, developing a regulatory sandbox and new global relationships. Members have welcomed these initiatives and the active collaboration with government and regulators associated with them, and were clear that they want to see more. At the same time, they were clear on what isn't working. In some cases, regulatory requirements make it harder for them to invest in growth firms or UK infrastructure. Regulation is critical to protecting customers of financial services against financial crises, but members are clear that what is required is smarter, fit-for-purpose regulation. As financial services continue to change, with new entrants offering new services, more needs to be done to help the sector deal with changing regulatory and taxation requirements.

An uncertain tax environment and lack of outcomes-orientated regulatory policy, against a backdrop of technological change and weak productivity, could ultimately impact the customer.

“Financial services matter, both for the whole economy and in their own right.”

With technology rapidly transforming the financial services sector, the UK needs an agile and robust regulatory and taxation regime to deal with new challenges, risks and customer demands to enable financial services to support UK growth

The CBI believes that keeping the UK competitive and at the forefront of global financial services requires:

A change in approach to put customers first

1. Change impact assessments to put more emphasis on the customer experience.
2. Set up a new collaborative framework with industry and publish a financial services engagement strategy to ensure the impact of regulation and taxation on customers is considered alongside changing technology.
3. Set up fresh mechanisms to provide effective scrutiny on the impact of regulation and taxation policies as the UK prepares to leave the EU; this could include a new Treasury Select Committee financial services sub-committee.

Government and regulators to work better with the global financial services industry to avoid unintended consequences of regulation

4. Remain committed to a leading role to keep the UK at the centre of financial services regulatory and taxation policy at the global level.
5. Continue engagement in international dialogues to ensure UK financial services firms can embrace global challenges.
6. Ensure government, regulators and financial services actively promote international regulatory cooperation to reduce regulatory inconsistency and associated inefficiencies.

An acceleration of efforts to ensure the regulatory environment supports rather than stifles innovation

7. Maintain a supportive environment that promotes innovation, the adoption of digital technology, and collaboration across the sector.
8. Create a cross-sector financial services hub to encourage regional adoption of new technologies.
9. Regulators to adopt digital innovations to help regulatory implementation and compliance, and keep pace with digitisation across the financial services industry.

INTRODUCTION

Financial services are an important enabler of the UK's future ambitions to become a competitive, world-leading economy. When the sector is firing on all cylinders, everyone stands to benefit.

But ten years on from the global financial crisis, despite much progress, the financial services sector continues to face several important challenges. From dealing with rapid technological developments to evolving regulatory expectations and tax policy, the sector is working hard to meet changing customer needs and expectations. The poor productivity performance of financial services since the crisis, with productivity shrinking by 2.1% a year since 2008,[4] has been a significant contributor to the slowdown in UK productivity growth.

The sector also plays an increasingly important role in shaping public policy to deal with the economic challenges of the future, such as demographic changes and addressing the savings gap, while making a real impact on everyday life in terms of helping businesses grow and expand and supporting job creation right across the economy.

This report sets out the contribution the sector makes, some of the challenges the sector faces, and the key steps to enable financial services to support UK growth and promote world-class financial services that will deliver great customer outcomes.

SPOTLIGHT: INTRODUCTION TO THE UK's REGULATORY AND TAXATION REGIME

The UK's regulatory regime refers to the regulators responsible for supervising financial services firms and overseeing financial markets, as well as the body of regulations that apply to firms. In this report, the CBI considers the regulatory regime alongside taxation, HM Treasury's policy approach to the financial services sector and the activities of HM Revenue and Customs (HMRC), to provide an all-encompassing perspective on how the UK's regulatory regime and regulators' supervisory functions should interact with tax policies. This is also driven by the prevailing tax and regulatory policy culture, which refers to the ideas, customs and behaviours adopted by government, tax authorities, politicians and the financial services firms themselves.

Following the crisis, the UK's regulatory regime has been underpinned by the 'twin peaks' approach, with the Financial Conduct Authority (FCA) regulating conduct (the behaviour of those involved in the market) and the Prudential Regulation Authority (PRA) responsible for the prudential regulation of deposit-takers such as banks and credit unions, as well as insurers and major investment firms, ensuring firms hold sufficient capital and control risks so that firms and therefore the system as a whole can withstand shocks. As the regulatory landscape has evolved ten years on from the crisis, the regime now reflects more of a series of bodies with the Payment Systems Regulator (PSR), the Competition and Markets Authority (CMA), Financial Ombudsman Service (FOS) and Information Commissioners Officer (ICO) all having a major role.

UK financial services supports the whole economy

Figure 1: The economic role of UK financial services

Financial services are the lifeblood of a healthy economy, supporting all other sectors to develop, innovate and grow. Building societies, banks, insurers, pension providers, payment firms, and asset managers provide a wide range of products and services that support UK businesses and households. By offering firms and investors access to deep and liquid global capital markets, the UK financial services sector's position at the heart of the global financial system enables the whole UK economy, from manufacturing to the creative industries, to compete globally.[5]

- **An essential partner for business** – The sector helps businesses grow, manage risk and ensure suppliers and wages are paid. UK banks alone lent an average of £14.3 billion to UK businesses each quarter in 2017.[6] Over 1,487 equity finance deals with an investment value of £5.9 billion also helped smaller businesses grow in 2017.[7] Trade credit insurers covered £314 billion of turnover, giving business the confidence they need to export and expand overseas.[8] The sector processed 4.2 billion business payments in 2017.[9]

- **Globally-competitive consumer products and services** – The sector helps individuals buy a home, save for the future, buy goods and services, and insure their belongings.[10] For example, the UK's insurance and pensions sector provides pensions to 21 million people and insures the contents of 20 million homes across the UK.[11]
- **High-quality jobs** – Financial services are an important UK employer. With over 1.1 million people working directly in the sector across every region and nation of the UK, financial services account for 3.2% of all jobs in the UK.[12] According to the latest ONS figures, there are a hundred parliamentary constituencies across England, Wales and Scotland with at least 2,000 jobs in the financial services sector.
- **Tax** – Financial services contributed over £72 billion in taxes last year – 11% of total UK Government tax receipts.[13] This is equivalent to almost half the planned NHS Budget across the whole UK.
- **Generating business demand for other goods and services** – Financial services spend £138 billion annually purchasing goods and services from other suppliers, accounting for 7% of overall demand for other sectors' goods and services. For example, the financial sector is the largest buyer of tech services in the UK (computer programming, telecommunications and information services)[14].

The financial services sector underpins prosperity and therefore how it functions matters to the whole economy.

"A practical and stable tax and regulatory regime can help provide a supportive environment for investing in innovation to boost sector productivity and deliver great customer outcomes. By helping small- and medium- sized firms adopt tried and tested technologies, they will be better placed to deal with changing requirements and serve their customers."

Financial services enabling business growth

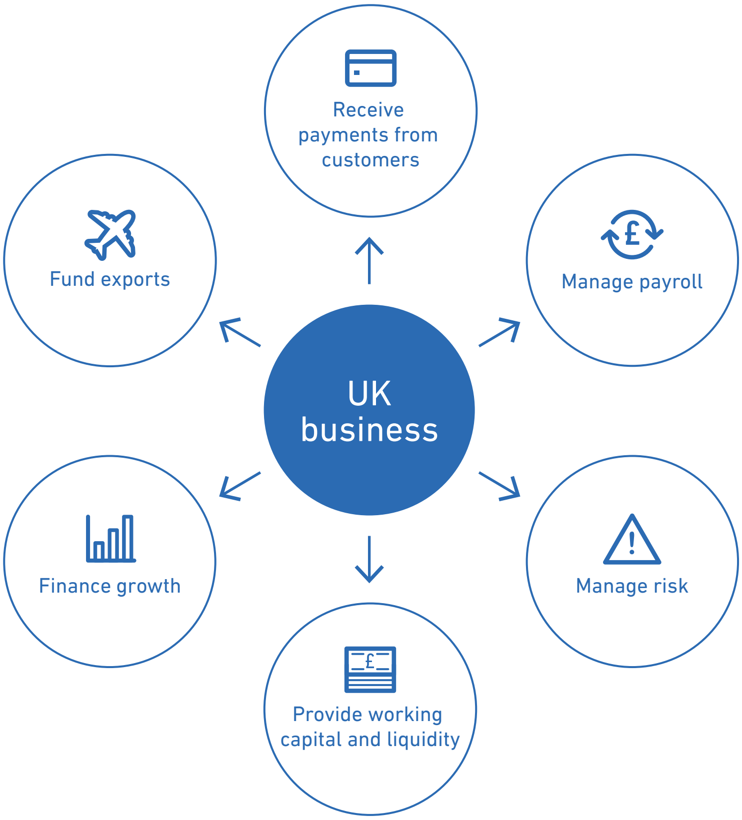

Figure 2: The role of financial services in enabling businesses

A typical UK business will work with the sector in several ways. They will use financial services to receive payments from customers, pay suppliers, manage their payroll and employees' pensions, manage their risks, and fund growth and exports.

The challenge: an uncertain tax environment and lack of outcomes-orientated regulatory policy, against a backdrop of technological change and weak productivity, impacting customers

Technological change

Technology is rapidly transforming financial services, bringing challenges as well as opportunities. The way customers pay for goods, manage their money and interact with their bank, insurers, and pension funds is evolving. For example, in 2017 more people paid for goods and services in the UK via debit cards than cash for the first time, with contactless payments increasing significantly.[15] At the same time, expectations in terms of quality, standards and products in a digital economy have been set by the FinTech revolution sweeping across the sector. Businesses and consumers increasingly want to access and manage their finances on their terms, with clear and simple terms and products with user friendly interfaces: 63.1% of consumers across the world have started using FinTech products and services.[16] The FinTech sector has also received increasing support from governments, regulators and investors.[17] Since 2014, FinTechs have seen close to $1.5 billion in investments into banking, insurance and asset management each year.[18]

Tax and regulation

While dealing with new technologies, new ways of working and new entrants to the market, the financial services sector is also continuously working with regulators, government and HMRC to implement new regulation and deal with changing tax requirements. Although many of these reforms are needed, these have also raised concerns that small- and medium-sized financial services providers have been disproportionally impacted, resulting in increased costs to users, reduced product choice and poor customer experiences.

Key to addressing this challenge is smarter regulation. This refers to regulation that is fit for purpose, safeguards financial stability and protects consumers, without infringing on the space businesses require to grow and innovate. It is proportionate and targeted regulation, with the benefit of cooperative, collaborative and engaged supervision.

In 2016, the CBI called for smarter regulation in the UK by adopting a practical approach to regulatory change, providing certainty to financial services firms at a time of great challenge to maintain their global competitiveness.[19]

There has been progress in the intervening years, with some improved engagement, but it is clear that the scale and pace of technological change requires a renewed focus on this approach.

The regulatory and taxation regime for the financial services sector needs to adapt to shifting circumstances, even as the sector embraces technology to deliver for customers whilst managing changing requirements.

The CBI believes that many of the principles set out in Smarter regulation remain relevant today.

Weak productivity

Finally, these changes are also occurring in an environment with persistently low productivity: productivity growth in the UK has slowed to an average of 0.4% a year since 2009.[20] The reasons for this are manifold, but one major driver of UK productivity has been the financial services sector's poor productivity performance since the crisis: since 2008, the sector's productivity has shrunk by 2.1% a year, acting as a drag on overall UK productivity.[21]

Closing the productivity gap between the best and worst-performing firms can address this challenge: CBI research found that if low-productivity firms adopted tried and tested technologies to match their more productive peers, it could reduce the difference between the highest and lowest earners in the UK, adding over the £100bn to UK GVA.[22]

This is where a practical and stable tax and regulatory regime can help provide a supportive environment for investing in innovation to boost sector productivity and deliver great customer outcomes. By helping small- and medium- sized firms adopt tried and tested technologies, they will be better placed to deal with changing requirements and serve their customers.

Steps to improve the financial services sector's ability to meet the demands of customers will make it easier for products, people, information and capital to move around across the whole economy.

Keeping pace with change in financial services

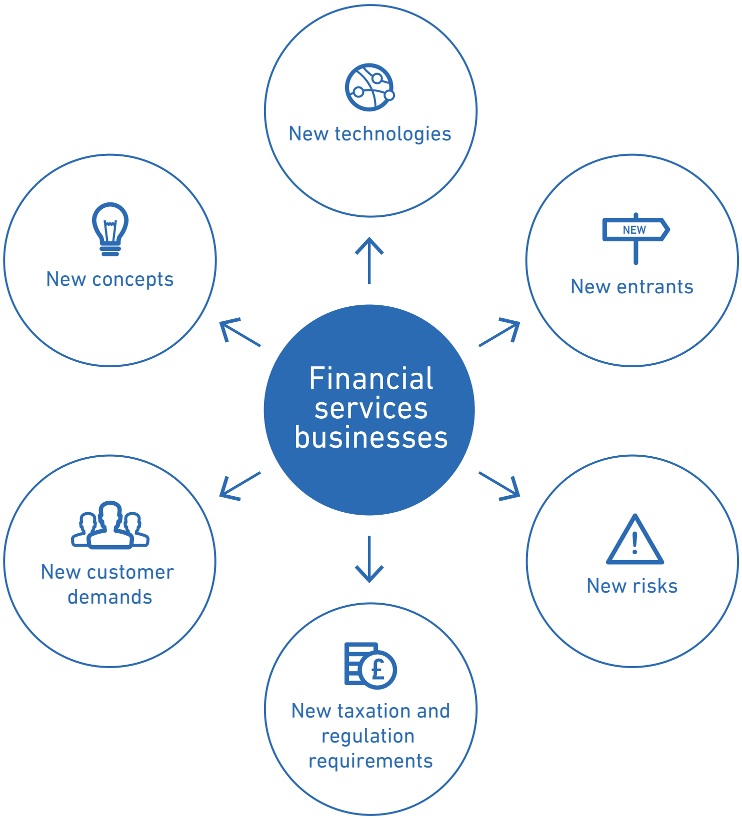

Figure 3: Changes in the financial services sector

The goal: world-class financial services that deliver great customer outcomes

To maintain global standards, government and regulators need to act now to build a strong and agile environment that protects customers and promotes stability while allowing firms to thrive.

In a digital age, the UK needs a financial services sector that delivers for businesses and customers, and the people they employ. Regulators, government and industry understand that a financial services sector fit for working Britain must be supported by regulation and taxation policies that are best-in-class and put customers first.

World-class financial services that deliver for customers and the UK economy are in all our interests.

"CBI members are actively embracing technology across every region and nation of the UK."

A change in approach to put customers first

1. Change impact assessments to put more emphasis on the customer experience
2. Set up a new collaborative framework with industry and publish a financial services engagement strategy to ensure the impact of regulation and taxation on customers is considered alongside changing technology
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The CBI firms engaged through interviews, surveys and roundtables for this report want the UK to be the best place in the world for the provision of financial services. Customers must be able to rely on the financial products and services provided to them as well as trust firms to provide these in a secure and timely way.

To meet these expectations, firms need the freedom and flexibility to develop new products and services while treating customers fairly and acting in a socially responsible manner within a regulatory framework that supports financial stability. The CBI welcomes efforts by regulators to promote market forces where there are low barriers to entry, growth and innovation. For example, the FCA sets out to promote competition where customers are fully engaged and able to make informed choices and firms can compete by providing improved offerings and superior service.[23]

At present, many firms are still adapting to shifting regulatory and taxation developments while dealing with rapid technological change. But, a key challenge is the lack of focus in policy discussions on customer needs and how these developments will impact them. Positive examples of initiatives that have put customers first include the FCA's 2015-2016 investment and corporate banking market study and the 2018 consultation on the possible extension of the remit of the FOS to include SME access for dispute referrals.

On the other hand, policies such as the rapid increases in Insurance Premium Tax (IPT) which features as a spotlight in this report also highlight the need for better dialogues with customers and the sector to get a full picture of the potential unintended consequences for customer outcomes from policy decisions.

In a changing global and technological environment, as the sector adapts to new digital practices, the UK's regulatory and taxation culture must also keep pace to the benefit of customers.

SPOTLIGHT: YORKSHIRE AND THE HUMBER

Yorkshire and the Humber has a thriving financial and related professional services sector that accounts for 7.3% of regional GVA and 5.5% of regional employment, with more than 130,000 employed in the space. The region is also home to three of the five largest building societies. Leeds is the leading city, home to 30 national and international banks as well as the major credit union Leeds City Credit Union, with Sheffield, Skipton and Bradford all having a significant financial services presence.[24] For example, Provident Financial is the largest employer in Bradford having been set up there in 1880 and serves 2.5 million customers across the country, helping them improve their credit ratings and promoting financial inclusion for those who would not otherwise have access to the credit they need. The presence of several top universities and business schools in the region offers a diverse pool of talent for the firms that have chosen to locate their services in Yorkshire, such as HSBC's global IT shared services and Aviva.[25]

SPOTLIGHT: COMMUNITIES AND FINANCIAL INCLUSION

The UK financial services sector is actively involved in promoting financial inclusion as well as supporting their communities.

- Building societies are adapting their mortgage products to reflect an ageing population, with research from the Building Societies Association (BSA) highlighting that the need for people to borrow for longer and later in life is growing. The proportion of lending to borrowers with terms taking them beyond age 65 rose to 41% during 2017. All UK building societies have reviewed their lending policies and 34 will lend up to age 80 or beyond.[26]
- Mastercard has made a major commitment to enable digital financial inclusion and tackle the poverty premium, which is the additional cost that the poor often pay for essential goods and services due to restricted choice. Recent analysis suggests this reduces annual household income by £490 on average, but this cost can spiral to as much as £1,890 in some cases.[27] In the UK there has been a historic lack of competition and choice in this space. For households that have a poor credit history or cannot access the latest technology, they can be locked out of the cheapest deals and most efficient services. Mastercard are working to change this; by collaborating with Credit Unions to help them digitise; working with the Post Office Card Account team to build a product that supports digital financial inclusion; and with prepaid card issuers to offer services that go beyond Basic Bank Accounts. This is breaking down barriers to entry, providing more people with greater choice and access to the services they need. Prepaid technology provides a route into the financial system without the need to open a savings account or pass a credit check. For many people struggling with problem debt this can provide a vital way to protect and manage their everyday finances.
- RSA Insurance Group has been driving forward a vulnerable customer policy to ensure that all customers have equal access to RSA products and services, regardless of the presence of any perceived or actual vulnerability. Launched in 2017, RSA's UK Personal Lines business carefully selected a new group of Vulnerable Customer Champions to act as advocates and help embed the policy within the business. The champions received emotional intelligence, empathy and empowerment training, whilst providing support and guidance to RSA employees by sharing their knowledge. RSA are continuing to expand their wider staff training, rolling out face-to-face and e-learning modules focused on vulnerable customers and introducing the TEXAS drill methodology, a five-step approach to gathering appropriate information regarding a customer's current situation to better support them.

1. Change impact assessments to put more emphasis on the customer experience

A greater focus on meaningful outcomes-orientated impact assessments that consider how new regulatory and taxation measures will shape the customer experience alongside conduct, prudential and operational risk, will enable financial services to support UK growth. Members suggest the focus of impact assessments is often on the costs and benefits that can be quantified, but not on how changes can deliver better customer experiences.

Firms are dealing with a digital reality, but it is critical they do so with support from a taxation and regulatory regime that provides certainty while ensuring markets remain fair, open, proportionate and competitive. Improved outcomes-orientated impact assessments will ensure that the regulatory and taxation regime considers the wider context in which firms are operating, identifying changing risks and customer demands.

A good example of how this approach can be applied is in the context of new technologies. A more meaningful impact assessment of the indirect effects of interventions and outcomes in markets will allow a full consideration of the forces such as technology at play in markets. This balanced, holistic approach before initiatives are undertaken could build on work by the FCA and others, who have developed effective evaluation frameworks to help embed a culture of measurement of impact.[28]

CBI members highlighted the importance of effective, meaningful impact assessments on issues from IPT through to Open Banking, GDPR and Solvency II, that consider how proposed measures could shape the customer experience as well as market forces.

A balanced approach that puts the customer at the centre of regulatory and taxation policy development will help meet customer expectations and ensure that they are protected.

SPOTLIGHT: INSURANCE PREMIUM TAX (IPT)

IPT is the tax on general insurance premiums. In the 2015 Budget, it was increased from 6% to 9.5% with limited consultation and engagement with the insurance industry to assess the knock-on impacts of such a rise. Then, in October 2016, there was a further increase, taking the rate to 10% with another increase in June 2017 to 12%. The IPT has had a disproportionate impact on small- and medium-sized firms. The impacts of these increases on businesses have been significant, with the 12% rate adding an estimated £300 per annum extra on average to the cost of commercial insurance premiums.[29] The higher costs of insurance have also challenged the ability of businesses to provide health and wellbeing support through private medical insurance to their staff. Young drivers who already pay higher premiums have seen a direct effect. In response to concerns that further IPT increases could act as a disincentive to responsible behaviour and the harmful social effects from increased numbers of uninsured drivers and properties, HM Treasury froze the rate of IPT in the Autumn budget in 2017. It is important that the government continues to commit to no further rises in IPT for the duration of this Parliament, as any further increase could potentially lead to inadequate levels of insurance cover.

SPOTLIGHT: NORTH WEST

A developing hub for financial services with a major cluster based in Manchester, financial and related professional services account for 7.6% of regional GVA and with 250,000 jobs relying on the sector, 7.5% of regional employment.[30] Firms consulted for this report highlighted that talent is increasingly attracted to the area due to the higher standard of living on offer in comparison to more expensive cities like London. MIDAS, Manchester's inward investment agency, with a strategic aim to secure significant levels of new investment and employment for the city region, has worked actively to attract firms to the region. Strong political support from Manchester's Metro Mayor and a network of leading universities providing a diverse talent pool all contribute to a welcoming environment. Companies in the region are also open to financial innovation, for example Manchester Airport Group worked with financial services partners to issue a corporate bond to fund its transformational capital investment programmes. Liverpool and Chester are significant clusters in the region, with asset and wealth management and maritime insurance building on strong global networks inherited from the area's industrial past.

2. Set up a new collaborative framework with industry and publish a financial services engagement strategy to ensure the impact of regulation and taxation on customers is considered alongside changing technology

Building on models such as FCA Innovate and the regulatory sandbox, the CBI proposes a new collaborative framework between government, regulators, financial services firms and end-users. This would involve the publication of a financial services engagement strategy with a series of forums and programme of events to share knowledge, identify risks, and consider customer outcomes from proposed policies.

The research for this report has illustrated just how much collaboration is already occurring across financial services. Sector associations, firms and the regulators alongside government are all engaging in various forums and initiatives to address new challenges posed by technology and ways of working. This includes the strong work of the regulators' existing statutory panels, which form part of their consultative framework. The FCA has 4 panels including a practitioner panel and consumer panel, whilst the PRA currently lacks a statutory consumer panel. Many firms highlighted their positive views on FCA Innovate and the regulatory sandbox, which fosters active engagement between the regulator and the sector to promote innovation. Yet with so much going on, there is the danger that learnings can be lost, and great ideas never come to fruition. Members have also voiced concern about a lack of consistency in engagement and accountability, for example a lack of continued engagement during the FCA's 2015-2017 Asset management market study.

SPOTLIGHT: POOL RE INSURANCE

The financial services sector has a long history of working in partnership with government to innovate and support the wider business community when faced with challenging circumstances. Pool Reinsurance Company Limited was set up in 1993 as a response to the market failure that was triggered by the bombing of the Baltic Exchange. The costs of terrorist activity in the 1990s led to reinsurers withdrawing cover for terrorism-related damage, compelling insurers to follow suit. Pool Re was founded by the insurance industry in cooperation with, and backed by funding from HM Treasury, to form a private sector solution to fulfil a public policy objective of protecting against terrorism risk. Since its foundation, Pool Re has provided effective protection for the UK economy and currently underwrites over £2 trillion of exposure in commercial property to terrorism risk across the UK mainland. To date, Pool Re has paid out claims of more than £600 million at no cost to the UK taxpayer. Working with government and relevant authorities, Pool Re has a global horizon giving businesses the protection they need as the terrorism threat continues to evolve, including extending cover to include cyber terrorism. Pool Re is a good example of how private and public-sector collaboration can meet both commercial and public policy imperatives.

There needs to be a formal framework that ensures effective capture of knowledge and insights exchanged, key action points and better accountability to deliver on agreed actions. HM Treasury and the Bank of England should co-sponsor this framework, delivered in partnership with the sector to ensure customer outcomes are put first, with the publication of a financial services engagement strategy.

SPOTLIGHT: GLENWYVIS, ASSET FINANCE

New risks and demands include changing products and ways of interacting with customers. Close Brothers Group is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. Within the Group, Close Brothers Asset Finance offers a range of flexible funding options including hire purchase, leasing and refinancing, enabling businesses to purchase assets and grow. They provide innovative products for projects which might not otherwise get funding to achieve their potential. A case in point is the GlenWyvis gin and whisky distillery, which was set up as a Community Benefit Society, has been largely crowdfunded by over 3,000 'investors' who share the vision of owning part of a new Scottish distillery. Based in Dingwall, they aim to turn it into the leading craft distillery town of Scotland with GlenWyvis providing a quality visitor destination on the North Coast 500 tourist route. With a product that takes time to distil and relies on high-quality steam, they were struggling to obtain finance for a suitable and environmentally friendly boiler with only one year of craft gin sales behind them. Close Brothers stepped in to provide a solution based on specialised asset knowledge and the flexibility to understand their structure through a Sale and Hire Purchase Back Agreement with a tailored payment package, allowing this Highland community project to enter the next phase of growth.

SPOTLIGHT: WEST MIDLANDS

The West Midlands is home to an active financial and related professional services hub, dominated by Birmingham, which alone has 50,000 jobs relying on the sector. With over 130,000 employed across the West Midlands, financial and related professional services accounts for 5.3% of regional employment and 6.5% of regional GVA.[31] HSBC's commitment to open its UK retail headquarters in Birmingham alongside the activities of leading building societies such as Coventry Building Society, with Coventry having 7,500 jobs in the sector, illustrate that the importance of financial services in the West Midlands is only set to grow.[32] Wesleyan Assurance Society, founded in Birmingham in 1841, provides tailored financial advice and products to select professional groups, notably GPs, hospital doctors, dentists, teachers and lawyers and a range of commercial financial products for the organisations in which they are employed. A mutual with 177 years of heritage, their relentless focus on members and customers while facing major regulatory and change requirements has seen a rapid adaptation of technology to reflect the changing needs of the markets they serve, with 97% of customers saying they feel 'valued'.

3. Set up fresh mechanisms to provide effective scrutiny on the impact of regulation and taxation policies as the UK prepares to leave the EU; this could include a Treasury Select Committee (TSC) financial services sub-committee

The TSC continues to carry out inquiries on the function and provision of financial services in the UK. This highlights the role that credible bodies with authority such as the TSC could play going forward in holding government, industry and regulators to account and has the responsibility to tell truth to power. For example, the TSC has carried out inquiries on regulations such as Solvency II, urging the PRA to work with industry in the interests of UK industry and consumers.

But, as the UK prepares to leave the EU and with the passage of the EU Withdrawal Act, the TSC will likely take on the additional responsibilities of scrutinising the implementation of onshored financial services regulation. There is a clear concern raised by CBI members that the TSC may lack sufficient resources to take on these new responsibilities.

The CBI believes fresh mechanisms, with active support from specialists, would have the headspace and authority to be a neutral critic for a changing sector. These mechanisms could provide a powerful voice for the customer and their remit could include smarter, fit-for-purpose regulation and stable taxation.

One approach is to set up a TSC financial services sub-committee, which could provide effective scrutiny over a financial services regulation and taxation culture that puts customers first. It would scrutinise new regulatory and tax policies, ensure that a meaningful and effective impact assessment has been conducted, as well ensure that new policies have been formulated in consultation with firms, regulators, HMRC/government and end users.

Such mechanisms would also ensure effective post-evaluation of new legislation and regulation.

Developing new mechanisms would require further discussions with the TSC and relevant authorities, including their view on the increasing role that Parliament will have to play and the additional resources required.

SPOTLIGHT: SOLVENCY II

Insurers play a key role in enabling growth across the whole economy by funnelling savings through insurance into much-needed investment. The Solvency II Directive (2009/138/EC) is a Directive in European Union law that codifies and harmonises the EU insurance regulation. This primarily concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. Insurance firms have had long standing concerns about the UK implementation of the Directive by the PRA. The TSC conducted an inquiry into the implementation of Solvency II and found it had come at a considerable cost to customers and the industry. For example, difficulties relating to the Risk Margin and the Matching Adjustment – which helps insurers invest in long-term assets as a natural match to their long-term liabilities – have led some firms to exit the annuities market, reducing competition, hampering firms' ability to innovate, hence limiting customer choice. The TSC stated that industry and the PRA did not appear to be aligned on some key issues, including the impact on consumers,[33] and recommended that the PRA begin pragmatic discussions with insurers to agree what is best for UK industry and consumers. As a result, the PRA has worked actively with firms to reach a more proportionate Solvency II regime. A proportionate Solvency II regime would support investor confidence providing a greater pool of long-term assets for even more stable, long-term investment in the UK. Whilst the debate is ongoing, this is an example of how groups like the TSC can use their convening power effectively to bring firms, government and regulators together in the interests of all users of financial services.

Government and regulators to work better with the global financial services industry to avoid unintended consequences of regulation

4. Remain committed to a leading role to keep the UK at the centre of financial services regulatory and taxation policy at the global level
5. Continue engagement in international dialogues to ensure UK financial services firms can embrace global challenges
6. Ensure government, regulators and financial services firms actively promote international regulatory cooperation to reduce regulatory inconsistency and associated inefficiencies

In dealing with technological and geopolitical challenges, the UK financial services sector must maintain a global outlook and a commitment to global standards. The financial services regime should maintain strong relationships required to encourage enhanced global cooperation to promote global financial stability and ensure that the UK remains a globally competitive financial services centre.

The depth, scale and global reach of the UK's capital markets, where shares, bonds, and other financial instruments are traded, and the confluence of global investors and intermediaries play a critical role in financing business growth, managing risks and investments. With more than 2,300 companies listed with a combined value of £4 trillion, the UK has the largest stock market in Europe.[34] The Alternative Investment Market (AIM), the world's leading growth market, allows fast-growing companies to float shares with a more flexible regulatory system than is applicable to the main market.

A resilient, fair and dynamic system must be outward looking to continue to serve the whole economy. This will require new dialogues to maintain strong relationships and relevant knowledge but above all a strong commitment to a global vision, with regulators and HM Treasury having the resources they need to fully engage in global forums.

SPOTLIGHT: BUSINESS GROWTH FUND

The Business Growth Fund (BGF) is the UK's most active investor in growing businesses. It was founded in 2011 by a consortium of banks – Barclays, HSBC, Lloyds Banking Group, Royal Bank of Scotland and Standard Chartered – to provide investment for small- and medium-sized businesses struggling to obtain growth finance through conventional sources. From escalator manufacturers to coffee shops and tech start-ups, BGF helps ambitious companies to think big and succeed. An established, independent company, they have an active team operating across the UK and £2.5 billion to make long-term equity investments in early-stage, established and listed companies. Risk weightings under the EU Capital Requirement Regulation (CRR) have allowed banks investing through BGF to take a less aggressive approach to returns that other venture capitalists might adopt, allowing BGF to become a valuable, patient partner for UK growth firms. This model is potentially under threat from Basel III proposals which would impact the risk-weighting of venture capital investments, with implications for the real economy. This demonstrates the importance of strong relationships to inform the global debate.

The Governor of the Bank of England, Mark Carney, powerfully set out a vision of a modernised financial service sector as a national asset and global public good in his 2018 Mansion House Speech.[35] He set out that "the Bank recognises that a new economy, a new world and new demographics demand a new financial system". The Governor set out three pillars to support a system that is responsibly open: strong global standards, deep supervisory cooperation, and ending 'too big to fail.'[36]

The industry also has a role to play in supporting the UK's global voice. For example, the International Regulatory Strategy Group (IRSG), is one of the leading cross-sectoral groups in Europe for the financial and related professional services industries to discuss and act on regulatory and policy developments relevant to the sector, and to promote international cooperation.

The CBI supports the IRSG's ongoing work for an industry-led dialogue on the importance of global regulatory coherence and the need for the financial services sector to make the case for the most effective form of regulatory coherence in global financial markets, to allow the sector to best serve the global economy.

SPOTLIGHT: LONDON

London is the leading global centre for wholesale finance. Financial services contributed 6.6% of the UK's GVA in 2016, £115.2bn, with London accounting for 54% of this.[37] The sector is an international powerhouse, responsible for creating 393,000 jobs across London – 792,000 when jobs in related professional services sectors are taken into account. Many of these jobs are high-value jobs, with over £107,000 of output generated for every job.[38 39] It ranks first as a global international financial services centre in several rankings including the Z/Yen's Global Financial Centres Index and Duff and Phelps' Regulatory Outlook report. From insurance and reinsurance markets to complex clearing operations it is second to none. This is a huge strategic national asset, playing a vital part in supporting the whole UK economy and providing businesses across every sector with the investment, protections and funds they need to innovate and grow. Significant clusters include the City of London and Canary Wharf, supported by a young and global workforce. In the City of London, 61% of workers are aged between 22 and 39 compared with 40% of workers across England and Wales in 2011, with 41% of workers of workers born outside the UK.[40] The international flows of talent, ideas and innovation are critical to London's future success and need to be supported by maintaining strong global relationships and a deep knowledge base.

4. Remain committed to a leading role to keep the UK at the centre of financial services regulatory and taxation policy at the global level.

A strong commitment to global standards and a leading role for the UK in international financial services regulatory and taxation developments is an important step to giving firms the certainty and stability they need to deliver world-class financial services that deliver great customer outcomes.

Many CBI members consulted for this report were vocal about the political uncertainty they face alongside the technological challenges they are grappling with. To best serve their customers within a wider business environment, they need to be supported by an outward looking, globally conscious regulatory and taxation framework that keeps pace with the latest digital developments. This will give investors and firms continued confidence that they are operating in a mature, well-regulated environment.

This approach is supported by leading regulators, politicians and the Governor of the Bank of England. For example, the FCA has announced the creation of a Global Financial Innovation Network (GFIN) in partnership with 11 financial regulators and related organisations across the world. The GFIN is planned to provide an efficient way for innovative firms to interact with regulators, helping them navigate the local environment as they look to scale new ideas in new markets. It is paramount that this commitment is maintained and developed. CBI members overwhelmingly welcome initiatives such as FinTech Bridges and HM Treasury's planned Global Financial Partnerships but there is a continuing concern about the lack of detail and the substance within them. For UK businesses to benefit from innovative financial services firms scaling new products and services through these initiatives, it is key to record knowledge exchanges and track relationship developments.

A dedicated hub and resource pack with relevant contact details would be a simple way of adding depth to existing commitments such as the FinTech bridges.

SPOTLIGHT: FINTECH BRIDGES

FinTech bridges are a government initiative to help UK firms expand internationally. Bridges between the UK and Australia, Canada, China, Hong Kong, Japan and the USA have now been set up. These bridges are built on bilateral co-operation agreements between the regulators in respective jurisdictions, enabling regulators to efficiently share information about financial services innovation in their respective markets, including emerging trends and regulatory issues, fostering innovation in FinTech and supporting start-ups in scaling up. For example, the UK-Australia bridge aims to bring regulators, policymakers, and the private sector together to build an improved fintech ecosystem to support the growth of their mutual fintech markets. This is one of the most advanced regulatory partnerships that the FCA has agreed, connecting the UK to a market of 24 million people and ensuring stronger commercial ties with Australia's rapidly growing fintech sector.[41] Sector associations will also introduce new business-to-business summits and act as a conduit of information to government. While this initiative is a positive model for global cooperation, many firms consulted for this report did highlight a concern that more resources need to be dedicated to the bridges as well as key performance metrics to provide a benchmark for success. This could be as simple as a dedicated online hub and tools to record knowledge and information exchanges.

5. Continue engagement in international dialogues to ensure UK financial services firms can embrace global challenges

Active monitoring of global developments and engagement from government, regulators and tax authorities in international dialogues as rules are made will give UK firms the support they need to face global challenges. Steps to retain the UK's voice in international regulatory forums will help maintain the UK's global competitiveness, enabling a strong sector that can support UK growth.

As the global economy becomes ever more interconnected, with new technologies making it easier for companies of all sectors to trade and invest, it is critical that the UK's regulatory and taxation regime remains agile to keep pace with developments. In doing so, it can be a strong voice for robust global standards that protect customers. For example, a regional credit provider based in Yorkshire highlighted that their most prominent competitors serving their market are based overseas and do not meet the same standards, with all the risks that entails. As new entrants and disruptors continue to enter the financial services space this is a challenge that is only set to grow.

It is not just a question of risks but also opportunities. A payment services provider highlighted the dramatic changes that technology offers to make it easier to allow cheap and efficient cross-border payments, delivering cost savings that could be passed onto the supply chain. A clear example of this is the Bank of England's efforts to expand the Real Time Gross Settlement System (RTGS) – which currently supports payments across the UK – to cross-border payments. Cross-border payments can currently cost up to ten times more than domestic ones.[43] The Bank's efforts through active engagement with international partners could result in annual savings of over £600 million, delivering direct positive impacts across the whole economy.[44]

With such significant gains to be made from global cooperation, it is therefore important that the UK has a strong voice in the room as rules are made to support world-class financial services that deliver great customer outcomes.

A strong commitment to a global horizon is a first step but CBI members were also clear that intentions must be matched by sufficient resources. The IRSG has produced a series of valuable reports, which have included setting out how regulators require increased resources for policy development and international engagement.[45]

SPOTLIGHT: SCOTLAND

Scotland is a major international finance hub and a leading European financial centre. A significant cluster, financial and related professional services account for 8.9% of the Scottish economy and 6.2% of national employment.[46] Scotland's key strengths are in banking, pensions and life assurance, directly supporting 161,000 jobs across the nation.[47] This is complemented by an emerging FinTech ecosystem supported by FinTech Scotland and a diverse, international talent pool emerging from its world-leading universities. Edinburgh and Glasgow are the major cities, with Royal Bank of Scotland, CYBG, Standard Life Aberdeen, Citi, HSBC and Morgan Stanley all having operations in these cities. In Glasgow, 10,500 jobs are in insurance alone with insurance contributing £1 billion to the Glasgow City Region economy.[48] Aviva's Bishopbriggs site handles all the firm's claims for liability and bodily injury from motor accidents. With around 100,000 claims a year, it is the biggest casualty claims centre in the UK. Zurich has set up a "construction centre of excellence" to respond to the needs of its clients. This helps Zurich understand the risk associated with the construction industry's adoption of cutting-edge techniques, such as a move towards more environmentally friendly construction.[49] Members were broadly happy with the direction of travel, welcoming increased engagement from the regulators, HMRC and Revenue Scotland. There were some concerns that, on top of significant change requirements, further increases in income tax in Scotland could have an impact on attracting talent for short-term specialist project work, which form an increasingly important part of internal workforce management in major financial services firms.

"Active monitoring of global developments and engagement from government, regulators and tax authorities in international dialogues as rules are made will give UK firms the support they need to face global challenges. Steps to retain the UK's voice in international regulatory forums will help maintain the UK's global competitiveness, enabling a strong sector that can support UK growth."

6. Ensure government, regulators and financial services firms actively promote international regulatory cooperation to reduce regulatory inconsistency and associated inefficiencies

Alongside a strong commitment to global standards and meaningful support for monitoring of developments and engagement in international dialogues, is the need for the UK to engage in global regulatory cooperation to reduce regulatory inconsistency and maximise efficiencies. In an increasingly integrated global financial system a coordinated approach will help promote financial stability, cooperating with international policy counterparts to face global challenges.

The response to the global financial crisis (2007-2008) saw the development of a global regulatory framework or 'architecture', including the development of a Financial Stability Board (FSB). In an era of globally-interconnected financial markets, the FSB aims to promote global financial stability and to increase the resilience of the financial services system to systemic risk by coordinating national financial authorities and international standard-setting bodies to work together to develop strong regulatory, supervisory and other financial sector policies and encouraging coherent implementation across sectors and jurisdictions.[50] Much has been achieved at the global and national levels, as the post-crisis regulatory agenda driven by the FSB has encouraged a drive toward common standards within a global framework.

But, this framework has come under increasing pressure as countries and regions increasingly take unilateral action, leading to greater risks of regulatory fragmentation and inconsistency. A recent example is the differences in the interpretation and implementation by individual EU Member States of the revised Markets in Financial Instruments Directive, MiFID II, with varying requirements across jurisdictions.

SPOTLIGHT: GLOBAL FINANCIAL PARTNERSHIPS

The Chancellor of the Exchequer expressed a commitment to global financial partnerships in his 2018 Mansion House speech. These would build on the work of the Treasury's Financial Services Trade and Investment Board, which consists of sector leaders, ministers and officials, in driving forward engagement with countries including China, India and Brazil. This has included efforts to bring renminbi trading to London and moves to develop Islamic finance in the UK, which have been met with success. New international free trade agreements would be aligned with the Treasury's ongoing programme of technical discussions on financial services co-operation. Partnerships with centres such as Singapore and Hong Kong could be expanded to include a broader remit than existing FinTech Bridges. CBI members involved in these partnerships welcome the UK's continued commitment to them, as these connections play an important role in building on the global collaboration and cooperation developed post-crisis.

There are economic and societal costs that come with regulatory inconsistency. A joint international study undertaken by the International Federation of Accountants (IFAC) and Business at OECD (BIAC) on the costs and impacts of regulatory divergence found that regulatory divergence is resulting in material and increasing costs in the financial sector globally, consuming on average between 5-10% of annual turnover. It also identified that over the last 5 years, 51% of financial institutions have had to divert resources away from investment in risk management activities because of regulatory divergence, as well as taking up senior management time and capital.[51]

Greater regulatory coherence – common sets of regulatory principles that govern how different countries regulate markets – will help tackle the inefficiencies of regulatory inconsistency while promoting stability and certainty to support investment. But this approach must also take into account the needs of individual jurisdictions. Regulatory coherence is most relevant for globally integrated markets, such as wholesale finance and the capital markets.

CBI members have raised their concerns about the lack of engagement opportunities with a global regime that can sometimes feel far away and removed from their business. They would welcome more active support from the UK government and the regulators to support meaningful engagement that promotes regulatory cooperation to reduce unnecessary divergence and associated inefficiencies. The nature this support should take, and the resources required, could be identified through consultation with financial services firms within the new collaborative framework recommended earlier in this report.

SPOTLIGHT: SOUTH WEST

Financial and related professional services in the South West account for 6.2% of regional employment and 7.7% of regional GVA.[52] Banking and insurance activities are significant, with multinational firms having major operations. Bristol is the largest financial centre in the region. Nationwide, the largest building society and second largest mortgage lender in the UK, is based in Swindon and has a large office in Bournemouth. Bournemouth is home to a key J.P. Morgan technology and operations hub which is a critical component of their global network of strategic hubs. From 650 employees in 1986, the operation has grown to 4,000 employees, many of whom are client-facing as well as a large number in operations, technology, audit and compliance. J. P. Morgan is currently the biggest private sector employer in Bournemouth. This example highlights how firms like J. P. Morgan have leveraged the skills of the local workforce in the Dorset region and throughout the U.K to support its daily operations, its clients and the global financial system. More than 90% of employees at the Bournemouth site live within 20 miles of the town, and they support several philanthropic initiatives in the community. This includes funding to Silicon South to implement Digital Horizons, a pilot programme that will enable 16- to 18-year-olds from disadvantaged backgrounds (particularly from Boscombe and West Howe) to enter the digital and creative industries.

An acceleration of efforts to ensure the regulatory environment supports rather than stifles innovation

7. Maintain a supportive environment that promotes innovation, the adoption of digital technology, and collaboration across the sector
8. Create a cross-sector financial services hub to encourage regional adoption of new technologies
9. Regulators to adopt digital innovations to help regulatory implementation and compliance, and keep pace with changes across the financial services industry

The UK financial services regulatory and taxation regime needs to think digitally to deal with new risks and customer demands and to develop world-class financial services that deliver great customer outcomes. CBI members of every size, across every region and nation of the UK are actively taking up the challenge themselves. It was striking to see the number of forward-looking financial services firms adopting and investing in technological innovations, including cutting-edge machine learning and artificial intelligence technology. These efforts should be supported by government, regulators and HMRC, to increase the adoption of tried and tested technologies to boost productivity. At the same time, they themselves should be more 'magpie',[53] embracing innovation to keep pace with a changing sector.

The financial services sector was one of the main drivers of productivity in the UK before the global financial crisis (2007-2008).[54] Recent studies highlight that financial services continue to play an important role in driving productivity in cities across the UK.[55] With much needed post-crisis action taken to promote stability, the sector is now actively embracing technology to deliver for its customers while meeting regulatory requirements as demonstrated by the spotlights that run throughout this report.

But, the scale and pace of complex regulatory and taxation changes, and the administrative and operational costs associated with meeting these requirements have resulted in significant demands on firms' limited resources. This is particularly acute among small- and medium-sized firms. To alleviate this, firms are actively investing in and adopting 'RegTech' to streamline compliance processes and improve monitoring and compliance.

While firms are actively embracing technology – to improve both the customer experience and internal operations - CBI members voiced their concern that the regulators and HMRC are simply not keeping pace with technological change. They welcome initiatives such as FCA Innovate and regulatory sandbox but feel that there is further scope for technological innovations to be harnessed in delivering efficiencies to regulators, firms and customers.

SPOTLIGHT: NORTHERN IRELAND

In Northern Ireland, financial and related professional services account for 5.1% of national GVA and 4.6% of national employment, employing 33,000 people and generating nearly £2bn in GVA.[56] Belfast is the centre of this activity in Northern Ireland, and is home to well-established operations and support services. A growing specialism in financial services software development is further contributing to its growth, supported by the digital talent emerging from Queen's University Belfast and Ulster University. Danske Bank, one of the leading retail banks in Northern Ireland, has continued to invest in improving the business customer experience. The Danske Small Business Hub, Danske Business Lab, Digital DNA, Danske Advantage events and Danske Bank Export First are all initiatives that allow them to serve businesses of every size across Northern Ireland.

7. Maintain a supportive environment that promotes innovation, the adoption of digital technology, and collaboration across the sector

The UK has taken active steps to foster a positive environment that promotes financial innovation and collaboration. This progress needs to be maintained and further developed through adopting common standards and processes.

Members suggest that a culture that strives to reach shared goals is formed by appropriate partnerships. They welcomed efforts to engage with financial innovation and promote collaboration, including the world-leading FCA Innovate and regulatory sandbox. While they want to innovate and focus on good customer outcomes, they do not feel fully supported by the regulatory and taxation regime.

For example, regulatory market studies should be pre-assessed for proportionality and effectiveness, as well as founded on realistic work plans and clear processes for early industry engagement.

Some members voiced concern about onerous requirements for data sharing and other costs associated with market studies, which have placed a significant strain on their business and taken attention away from innovation and improving customer services. This was pronounced among the small- and medium-sized firms consulted for the report. There has been some recognition of these challenges by regulators but using common platforms and processes, such as for data formats, going forward will enhance financial innovation and collaboration.

The UK should also seek to adopt global best practices from other countries that can be successfully replicated in the UK. For example, a global insurer highlighted the "keep it short and simple" (KISS) initiative for regulation in the United States which is making a tangible difference to financial services regulatory and tax policymaking at both working and strategic levels. While in Europe, payment firms have valued active dialogue with EU regulators regarding how market developments were delivering for business customers.

SPOTLIGHT: REGULATORY SANDBOX

CBI members engaged for this report welcome the FCA's continued commitment to trialling and testing (helping ensure remedies are well designed and have the desired impact) and to FCA Innovate and the regulatory sandbox (easing the process of new entry into different retail markets). The FCA consistently asserts its intentions to be one of the most forward-looking regulators in the world, though there is room for improvement at the operational level particularly in how the FCA engages and works directly with firms. The FCA's world-leading regulatory sandbox, launched in June 2016, allows businesses to live-test innovative products, services, business models and delivery mechanisms in the market, with real customers. Open to authorised firms, firms seeking authorisation and technology businesses, the tests and tools provided in the sandbox have reduced the time and cost of getting innovative ideas to market. Around 90% of firms that completed testing in the first cohort continued toward a wider market launch following their test.[57] The sandbox has also enabled the FCA to work with innovators to build appropriate consumer protection safeguards into new products and services.[58] This is exactly the kind of positive connection firms want to see and provides a model for collaborative engagement across financial services.

8. Create a cross-sector financial services hub to encourage regional adoption of new technologies

To improve the adoption of tried and tested technologies, a new cross-sector financial services hub should be created, co-sponsored by HM Treasury and the FCA to leverage existing knowledge and relationships to encourage the regional adoption of new technologies. Regulators, government, HMRC and the devolved administrations should all be active participants.

CBI research shows that one of the reasons why large disparities in productivity exist between firms is because of the failure of many UK businesses to adopt new technology and innovations that can help their businesses become more productive. In our report, From ostrich to magpie, the CBI showed that if the UK had more firms behaving like magpies – by finding and adopting readily available technologies and management best practices proven to lift productivity and pay – it could close the productivity gap between firms and reduce the difference between the highest and lowest earners in the UK, adding over the £100 billion to UK GVA.[59]

It became evident in undertaking the research for this report that members are actively embracing technology across every region and nation of the UK. This has been supported by the CBI Financial Services Survey, with 70% of firms stating spending on Information Technology is growing at a robust pace and 72% investing to provide new services - the highest share in three years.[60] But, many small- and medium-sized financial services firms would welcome further support, with improved access to knowledge and networks to help them transform their business and make efficiencies.

To build on current progress, a cross-sector hub connected to international initiatives such as the FCA's global sandbox would be a valuable conduit for spreading new technologies and best working practices to firms of different sizes across the sector in the interests of all users of financial services.

Major banks, insurers and some challenger banks and building societies consulted for this report are among some of the firms that have already set up networks of incubators and accelerators across the UK to spread knowledge, building valuable relationships.

Active involvement from regulators, government, HMRC and the devolved administrations will give more firms the opportunity to share best practices and ideas for new innovations.

This could also be open to the clients of financial services firms, educating other businesses about what is possible through adopting new technologies and motivating them to be more 'magpie'.

SPOTLIGHT: EAGLE LABS

Barclays aims to play a pivotal role in fostering innovation and facilitating inclusive, shared growth in local communities through the Barclays Eagle Labs. The Eagle Labs aim to drive local economic growth, support job creation, and improve connections and relationships in the communities they operate in by providing a physical space open to individuals and businesses with support from Barclays and specialists within its network. From Liverpool to the Isle of Man and beyond, they have worked with universities, local governments, private co-working businesses and tech and education providers to give businesses the support they need to innovate and grow. This includes initiatives such as artificial intelligence (AI) Frenzy Events to build knowledge and develop the skills of their workforce through various use cases, research, projects, events, and collaborations to enhance their AI applications within financial services. They have existing partnerships with the Law Society to develop LawTech businesses and a burgeoning offering for AgriTech businesses as the largest agricultural bank in the UK. Regulators, HMRC and government could interact with such networks to build the relationships and knowledge required for a step-change in financial services regulation and taxation culture.

9. Regulators to adopt digital innovations to help regulatory implementation and compliance, and keep pace with changes across the financial services industry

Regulators need to increase their knowledge of how digital technologies are transforming how financial services operate and interact with customers. They should adopt digital innovations, building on the work undertaken to digitise their handbooks and other materials. This would include a review of existing practices to avoid paper-based responses and wet signature requirements.

Several insurers and asset managers highlighted concerns with the UK requirements associated with the Packaged Retail and Insurance-based Investment Products (PRIIPs) as an example of how the UK's regulation and taxation regime is not keeping pace with firms. Although the PRIIPs regulations are intended to help investors better understand and compare the key features, risk, rewards and costs of various investment options, compliance with some disclosure requirements still require paper-based documents. These requirements can be streamlined easily using digital documents or even included in an interactive app.

Regulators and HMRC should consider how they could use more interactive tools – including apps - to engage with firms and ensure that regulatory requirements keep pace with technological developments and for firms to carry out compliance activities efficiently and with minimal burden to consumers.

A new digital objective and allocating a proportion of their budget to digital requirements would be a clear signal of their commitment to innovation.

SPOTLIGHT: RECORDSURE

Technology can often be perceived as being complicated with little relevance to the everyday operations of a business. Often the jargon around new initiatives can make them seem complex and unapproachable, clouding the fact that quite often these are simply tools that make existing jobs easier. Recordsure is such a tool, helping organisations understand and improve their customer interactions, bringing trust, transparency, and efficiency to every conversation. It uses the latest thinking in machine learning and artificial intelligence to record and use the huge amounts of data generated by customer interactions. Tools to collect, analyse and classify customer interaction data make it easy to search huge amounts of data and help firms with their reporting requirements. With AI speech analysis, they can snatch meaning from neutral conversations and allow firms to build up a meaningful picture of customer exchanges. This puts them in a better position to tackle conduct and culture challenges. From MiFID II to everyday compliance recording, it has helped firms reduce costs and been smoothly integrated with existing systems. Banks have found it can create significant efficiencies in their compliance monitoring processes, resulting in up to a 50% reduction in compliance costs ensuring staff will have more time to spend helping customers.

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