ICAEW
REPRESENTATION 90/24

FINANCIAL SERVICES - GROWTH AND COMPETITIVENESS STRATEGY ICAEW: CALL FOR EVIDENCE - RESPONSE

Issued 12 December 2024

ICAEW welcomes the opportunity to comment on the Financial Services Growth and Competitiveness Strategy Consultation published by HM Treasury on 14 November 2024, a copy of which is available from this link.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and leads, connects, supports and regulates more than 169,000 chartered accountant members in over 146 countries. ICAEW Chartered Accountants advise and run more than three million businesses across the UK – in almost every sector, and from the smallest firms right up to the largest. 84% of FTSE 100 companies have at least one ICAEW member on their board.

The ICAEW Financial Services Faculty is a leading centre for thought leadership on financial services. It brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk, auditing and reporting issues facing the financial services sector. The faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

The Corporate Finance Faculty is ICAEW's centre of professional expertise in corporate finance. It contributes to policy development and responds to consultations by international organisations, governments, regulators and other professional bodies. The faculty provides a wide range of services, information, guidance, events and media to its members, including its highly regarded magazine Corporate Financier and its popular series of best-practice guidelines. The faculty's international network includes member organisations and individuals from major professional services groups, specialist advisory firms, companies, banks and alternative lenders, private equity, venture capital, law firms, brokers, consultants, policymakers and academic experts. More than 40 per cent of the faculty's membership are from beyond ICAEW.

We would be delighted to offer your office and panel of City advisors access to bespoke roundtables and focus groups. If you would like to learn more about this, please contact patrick.tettmar@icaew.com.

To discuss this submission please contact us at representations@icaew.com quoting REP 90/24.

© ICAEW 2024
All rights reserved.
This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:
• it is appropriately attributed, replicated accurately and is not used in a misleading context;
• the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.
Where third-party copyright material has been identified application for permission must be made to the copyright holder.

ICAEW
Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

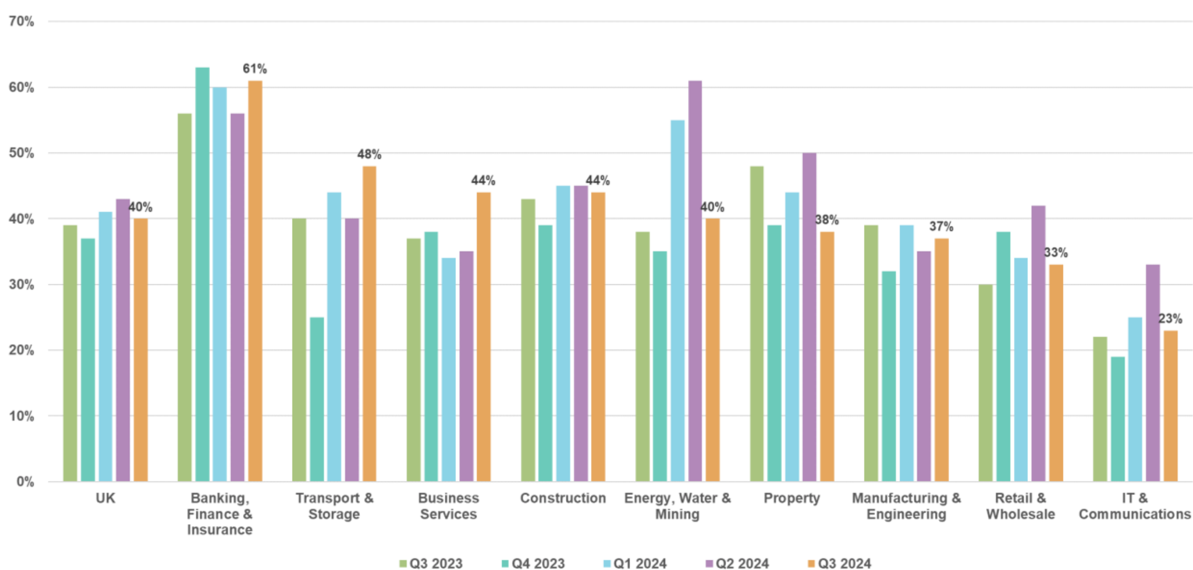
The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

OBJECTIVES AND APPROACH

Question 3.1: Do you agree with the proposed objectives set out in paragraph 3.6?

1. While ICAEW agrees with the proposed objectives for the Financial Services Growth & Competitiveness Strategy, we believe that the government should be more ambitious given the importance of this sector to the UK economy.
2. We believe that there should be a shift from simply supporting and growing these areas, to establishing the UK as a global leader, particularly in digital transformation and innovation. We should also cement our leadership in emerging technologies, like artificial intelligence and blockchain.
3. We also need to be more ambitious in modernising our approach to regulation. The current regulatory environment is overly complex. ICAEW's Business Confidence Monitor (BCM) – one of the largest and most comprehensive quarterly surveys of UK business activity – found that regulatory requirements were particularly challenging for Banking, Finance and Insurance. In Q3 2024, 61% of Banking, Finance and Insurance businesses cited regulatory requirements as a growing challenge, significantly higher than the UK average of 40%:

Has factor become a greater or lesser challenge to your organisation's performance? % Greater: Regulatory requirements



4. Regulation in the sector often lacks a cohesive strategy, is multifaceted in a way that creates unnecessary challenges, and is disproportionately burdensome, relative to the risks that it seeks to address. Creating a framework that better balances risk with opportunities for growth must be a key priority for this strategy.

FUTURE OF FINANCIAL SERVICES

Question 3.3: What do you consider to be the most important trends or changes likely to affect the financial services industry over the next 10 years?

5. The next decade presents transformative opportunities for the financial services sector, driven by advancements in AI and blockchain and the continued digitalisation of financial services. We are likely to continue to see a range of new business models come to market that take advantage of data and underlying technology to support new customer offerings to drive efficiencies and offer opportunities to improve accessibility of financial services to less

well-served groups. The boundaries are likely to continue to blur between firms that operate in traditional finance and those in technology. This will inevitably lead to challenges as to where regulatory boundaries sit.

6. Feedback from a recent ICAEW roundtable suggests that the opportunities for AI in financial services appear to be limited to improving efficiency and enhancing back-office functions. However, as AI technology improves, we are likely to see more pervasive use of it. It may improve our understanding of risk, inevitably impacting upon insurance pricing and underwriting – the opportunity here being personalisation at scale, which will bring significant benefits but also unintended consequences. Policymakers will need to consider the fairness and transparency of such consequences.
7. The potential benefits of blockchain are also significant. It will support the emergence of new asset classes and reduce intermediation, which will in turn improve settlement times, market liquidity and transaction costs. Blockchain has the potential to significantly disrupt traditional business models across financial services, from banks to pension funds, asset managers and insurance. Existing use cases and adoption indicate that these assets will be cross-border in nature. Therefore, global co-operation will be necessary to ensure minimum regulatory standards.
8. Increasing reliance on third-party providers for support functions will continue to present risks to financial systems. Evidence from ICAEW members across banks and insurers indicates that financial services firms will continue partnering with key technology providers, as they look to modernise their infrastructure and outsource critical functions. Future developments will only continue this trend. We are likely to see a complex web of interconnected services, embedded as critical services within financial services firms. These will include cloud computing, AI platforms, cyber defences and data providers. Recent systems outages (e.g. Crowdstrike) have illustrated the reliance of operations on support from outside the regulated sector. We will need to remain alive to these risks over the next 10 years and move to a more holistic view of system risks.
9. The digitalisation of financial services and payments has also increased vulnerabilities in cybersecurity and the risks of fraud and of money laundering. This trend is likely to continue, along with the significant cost it bears to the industry. Unless the sector, government and regulators can get on top of these issues, they will ultimately inhibit the confidence and trust of the users of financial services.
10. Lastly, climate change will provide both risks and opportunities for the sector. The UK's Climate Change Committee estimated that the UK will require around £50 billion of investment annually[1], through the late 2020s and 2030s, in order to meet its net zero commitment. This is a five-fold growth in current investment levels. Our financial services sector will be key in forming capital markets that will support the funding needed for transition.
11. Banks and insurers will also have to adapt their business models for the risks brought about by climate change. In particular, for lending and investment assets, climate change will affect credit risk and valuations. And for insurance underwriting, climate change will affect claims costs and the coverage that can be offered.

POLICY PILLARS

Question 4.1: Do you agree with the list of policy pillars that the government intends to focus on? Are there other areas that should be included?

12. Sustainability and the transition to net zero should be one of the key policy pillars. The government has, however, already identified sustainable finance as a priority growth area. The financial sector is uniquely positioned to mobilise capital toward green investments and to scale innovative financing solutions for dealing with decarbonisation. The government can signal its commitment by explicitly prioritising sustainability. This would help to create a

[1] Sixth Carbon Budget - Climate Change Committee

regulatory and market environment that encourages firms to align their strategies with net-zero objectives.

Question 4.2: Please rank the list of pillars in order of importance to your business or organisation for i) day-to-day operations and ii) longer-term plans for investing in the UK:

1. Innovation & Technology

2. Regulatory Environment

3. Regional Growth

4. Skills & Access to Talent

5. International Partnerships & Trade

13. For both (i) day-to-day operations and (ii) longer-term plans, our order of priorities is the same. Our ranking of the pillars is 2,1,5,4,3, as shown below:
    - (2) Regulatory Environment
    - (1) Innovation & Technology
    - (5) International Partnerships & Trade
    - (4) Skills & Access to Talent
    - (3) Regional Growth

Question 4.3: How well is competition currently working in the financial services sector, and how can it be improved?

14. Currently, competition in financial services is mixed and varies by sector. In retail banking, there has been some success with new entry and expansion. For example, the British Business Bank's Small Business Finance Markets Report found that the share of total gross lending to SMEs by challenger and specialist banks exceeded that of the big five banks in 2023 for the third consecutive year. However, the six largest high street banks continue to retain the majority of market share across deposits and retail lending. Regulatory cliff edges remain for smaller banks and building societies – for example, in relation to prudential requirements and the scope of the Public Interest Entity (PIE) regime (including transparency, governance, reporting and auditing). In some cases, these requirements are disproportionate to the risks that those firms pose to the sector.
15. We encourage both government and regulators to continue to address these constraints – for example, through the 'Strong and Simple' regime that the PRA is designing for smaller banks, and through considering a new definition of PIE, which will determine which firms will be captured by the enhanced powers of the new reporting and audit regulator, ARGA.
16. Two themes are driving barriers to entry and expansion for smaller firms and startups:
    i. **Regulatory requirements often place a disproportionate burden on very small firms** and require these firms to undertake significant regulatory and compliance activities from the very outset. The FCA recently published a Call for Evidence seeking opportunities for rationalisation, following the recent implementation of the Consumer Duty. This is encouraging and may identify areas of their 10,000+ page rule book that could be rationalised. We support further efforts to address the accumulation of rules that have built up over many decades.
    ii. **The UK lags international peers in creating a regulatory regime for new and emerging technologies that support firms investing and innovating** – for example, blockchain. The EU's new 'Markets in Crypto-Assets Regulation' (MiCA) goes live in 2025[2]. However, our regulator is yet to consult on a comprehensive regime. As a result, the FCA currently only has a remit to supervise crypto firms in respect of money

[2] Regulation (EU) 2023/ of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937

© ICAEW 2024

laundering. Nevertheless, the FCA's recent road map[3] is encouraging. This will provide direction and pace to rulemaking in this area during 2025. We also welcome the Mansion House announcements about a market for a Digital Gilt Instrument. However, these measures do indicate a somewhat piece-meal approach to seizing new opportunities in this area.

INNOVATION AND TECHNOLOGY

Question 4.4: What is your assessment of how effectively the UK supports innovation and the adoption of new technology? What could be improved in the financial services sector?

17. The UK is somewhat effective at supporting the adoption of technology. It remains one of the largest fintech hubs in the world, attracting more investment than comparable nations. Efforts by regulators like the FCA's Regulatory and Digital Sandbox are examples where the UK regime supports the responsible innovation of the industry.
18. Feedback from our members indicates that AI adoption within financial services remains limited, particularly among Tier 1 systemic institutions. While AI has been employed in areas like risk modelling for many years, its broader application across front- and back-office functions is limited. In part this appears to be due to regulatory uncertainty and risks of taking AI impacted products to market. Broader concerns around trust, explainability, and validation have slowed progress, despite the potential for AI to impact upon operations and decision-making.
19. To address these concerns, the government needs to continue to work with financial services regulators to set out clear guardrails and expectations that encourage further investment. The government laid out its pro-innovation approach more than a year ago but has not managed to build much certainty since. Since the General Election, it is unclear if there will be a different direction in regulation from that of the previous government, so providing certainty and building momentum will be critical. The resulting regulatory frameworks need to balance the need to ensure AI systems are transparent, explainable, and rigorously tested while supporting new business models and product offerings.
20. In the realm of digital assets, challenges such as market volatility, rapid technological evolution, and the notable collapses of key industry players highlight the urgent need for enhanced regulation. A well-designed regulatory framework would help address risks such as fraud, money laundering, and financial instability while fostering innovation in a secure environment. By enhancing investor confidence through transparency and risk management, the UK can ensure sustainable growth in the digital asset sector and establish a competitive edge.
21. A key point to draw out is on digital skills, in all sectors of the economy. The government estimated that the digital skills shortage was costing the UK economy ~£63 billion per year in its 2022 Digital Strategy. Lloyds Bank are commissioned by the Department for Education to run an annual Consumer Digital Index, and this was last published in 2023. This found that 7.5 million people, or 18% of UK adults, lacked the essential digital skills that are needed for the workplace. The Financial Services Skills Commission points to these skills as some with the highest demand. Skills policy in the UK is complex, and policy being driven to support the economy by HMT and DBT does not seem to be translating to the needs of sectors, including financial services, to acquire this talent by hiring or upskilling. These skills need to be embedded in skills policy to support the sector in keeping pace with technological change and as a result secure competitiveness.

[3] FCA Crypto Roadmap

© ICAEW 2024

Question 4.5: Which technologies do you think have the most potential to transform financial services over the next 10 years? And in which financial services sectors or functions do you see these being applied most effectively?

22. Many of the technologies that have shaped innovation over the last few years are likely to continue to be important drivers for productivity in the short to medium term. These include:

Artificial Intelligence and Algorithms

23. A Bank of England survey published in November 2024 found that AI adoption among the largest financial institutions is already well underway with further adoption likely. The power of the technology is in its ability to gain insight from analysing vast quantities of data. The financial services sector generates and operates on a lot of data, but the likely largest benefits from these insights are:
    i. **System monitoring**: These tools will be vital in combatting money laundering and fraud, where economic crime accounts for 40% of all UK reported crimes. The ability of AI to monitor, profile and flag suspicious payment activity will be a critical tool in protecting customers and clients. Additionally, these tools are also being widely adopted for internal system monitoring to detect suspicious cyber activity or conduct risk analysis to support the resilience and security of the sector against hostile actors.
    ii. **Customer support**: Efficiencies in using the most recent generations of chatbots for customers to engage with their finances will free up resource in financial institutions to focus on more productive areas like product development. Depending on the products provided, this use case has varying regulatory certainty, with existing regulation not permitting financial advice, but allowing information on credit decisioning (with the right for human review).
    iii. **Forecasting and modelling**: Increasing reporting requirements around sustainability, as well as the commercial opportunities for improved forecasting, creditworthiness assessments, pricing and liquidity management.

Blockchain

24. HM Treasury supported the formation of the FMI sandbox, now the Digital Securities Sandbox, in the Financial Services and Markets Act 2022. The opportunities to allow for the issuance, trading and settlement of securities on a shared platform could drive growth through greater efficiency and liquidity in securities markets, and by extension permit companies to raise more capital to drive investment in the UK through issuing equity or bonds. There are also opportunities in the development of Central Bank Digital Currencies (CBDCs) which HMT can read in ICAEW's response to the digital pound here.

Digital identity and smart data

25. Open Banking has shown the potential benefits of removing consumer frictions when engaging with financial services. Extending these benefits so that consumers and businesses can access their pensions, investments, and other services could spur further innovation and growth in the sector, driven by data analysis of consumer behaviours, advice based on real time views of financial habits, and risk tolerances.

Quantum computing

26. The unique strengths of quantum computing in probabilistic algorithms lends itself to a couple of areas within financial services. There are industry initiatives looking at the use of this technology, but it is still nascent, and we recommend that Treasury only keep a watching purview of these initiatives.
27. The computing also lends itself to optimisation problems, where optimisation tends not to be deterministic. This would apply to risk management or trading of financial instruments or portfolio optimisation. Algorithms like the Monte Carlo simulations which are currently too

computationally intensive and costly using traditional computing could project growing asset portfolios, which could even be applied to whether pensioners will run out of their pension. A need for more mathematically skilled employees who can interpret probabilistic outputs (i.e. a series of potential outcomes with differing results) will be needed to assess the outputs of these simulations. Further exploration of use cases with the National Quantum Computing Centre can develop further the feasibility of these use cases.

REGULATORY ENVIRONMENT

Question 4.6: What is your assessment of the UK's current regulatory environment?

28. The UK's regulatory environment is marked by both strengths and challenges. On the positive side, the Financial Conduct Authority's (FCA) introduction of outcomes-focused regulation, as seen with the Consumer Duty, represents a shift toward a framework that emphasises flexibility, innovation, and adaptability. By moving away from excessively prescriptive rules, this approach provides firms with greater scope to design customer-centric solutions and tackle evolving risks based on their specific business models and customer bases. This adaptability can futureproof regulation and enable the financial sector to better respond to rapid technological advancements and global market dynamics.
29. However, significant concerns remain about the complexity of the existing regulatory framework. The FCA's 10,000+ page rulebook, often cited as unwieldy and disproportionately burdensome, particularly for smaller firms, presents a barrier to market participation and innovation.
30. ICAEW welcomed the Mansion House announcement regarding a review of the relationship between the Financial Ombudsman Service (FOS) and the FCA. This is a timely and critical initiative, particularly as redress and litigation issues in conduct regulation continue to escalate. We are mindful of the report on a call for evidence on the FCA, published by the APPG on Investment Fraud and Fairer Financial Services, that also includes findings about the roles and relationship between the FCA and FOS. There is need for a response to the report's description of the FCA as an "unaccountable organisation, slow to act and even slower to admit it has got things wrong and to change" and on its recommendations.
31. A prominent example of things going wrong is the ongoing motor finance mis-selling cases involving discretionary and undisclosed commissions, which we have been navigating with audit partners and regulators. While some aspects of this issue are matters for the courts, the broader uncertainty it creates is deeply concerning for the sector.
32. The immediate impact is most acutely felt by finance providers dealing in motor finance, but the potential implications extend far beyond, raising questions about the precedent it might set for other intermediated products. This uncertainty risks undermining confidence in key segments of the financial services market.
33. It is therefore essential that the government and regulators work collaboratively and urgently, to establish clear legal and regulatory frameworks to provide certainty for the sector. Such clarity will not only protect consumers and firms from prolonged uncertainty, but also ensure a stable and predictable environment that supports innovation, growth, and the effective functioning of intermediated financial products.
34. For now, the best solution might include an FCA-led redress scheme for the motor finance sector, providing certainty and timely fast and cost-effective resolution of the historic consumer complaints.

Specific issues regarding bank account services

35. Our members continue to report issues with the operation of bank accounts. The issue of "debanking," where financial institutions abruptly close business accounts with little or no explanation, remains a concern. Members have reported instances of long-standing banking relationships being terminated without adequate notice, often leaving businesses with only 30 days to transition to new providers. This lack of transparency creates financial uncertainty

and operational disruptions, consuming valuable resources as members struggle to open new accounts for themselves or their clients.

36. Furthermore, the practice often has a domino effect, where account rejections by one bank lead to similar refusals by others, making it increasingly challenging for affected organisations to access essential financial services.
37. Opening and maintaining business accounts has also become increasingly difficult, with banks imposing onerous Know Your Customer (KYC) and Anti-Money Laundering (AML) requirements. Members have reported extensive delays, including a six-month process to open an account for a group holding company, despite unchanged details. These challenges are exacerbated by unrealistic requests, such as certifying complex group structures or providing decades-old financial records. Such inefficiencies, coupled with unresponsive banks and impractical demands, are placing undue pressure on businesses and professionals, hindering their ability to maintain smooth operations.

Senior Managers & Certification Regime

38. In our responses in 2023 to the HMT call for evidence, and the joint FCA and PRA review of the SM&CR, we reported that ICAEW member firms had integrated the SM&CR into their wider compliance environment with a broadly beneficial impact. Our members also did not consider that the regime was internationally uncompetitive. However, our members identified the need for improvements to the authorisation process – specifically around the length of time and the regulator’s rate of response.
39. The Mansion House speech indicated that the outcomes of the HMT and FCA/PRA reviews will refer to the government’s intention to remove and replace the Certification regime with a more proportionate system. Depending on the nature of the replacement system, this may benefit firms that have many certified individuals.

Economic Crime and Fraud

40. Fraud and cybercrime remain of significant concern and a threat to the sector. We understand that the resourcing and cost of tackling fraud, money laundering and forms of cybercrime have ramped up in recent years for banks and payment firms. This is an area where regulators and governments need to continue to support payment firms with better regulation, investment, and oversight.
41. The Economic Crime and Corporate Transparency (ECCT) Act should help to reduce the attractiveness and viability of the UK being used by criminals and other nefarious actors to conduct economic crime. The significant changes to Companies House, especially, are long overdue. If effectively implemented and funded, they should provide an effective mechanism to reduce the prevalence of bad actors, committing economic crime in this country.
42. Enhancing the powers of the Office for Professional Body Anti-Money Laundering Supervision (OPBAS), and increasing the effectiveness of professional body supervision (the OPBAS+ model), would preserve and build on the significant investment already made in OPBAS. It would also maintain the UK’s alignment with AML work in Europe. The other options proposed risk an upheaval that could cause uncertainty.
43. Importantly, the government has acknowledged that fraud, including APP scams, often originates online and via social media platforms. The firms running these platforms should be required to take greater responsibility for preventing such crimes.

Regulation of public company takeovers

44. The Takeover Panel is respected by ICAEW members and other market counterparties as an authoritative regulator that encourages and is open to early consultation by parties. As well as conducting public consultation of possible changes to the Takeover Code, it typically has informal advance discussions with market participants, to ensure that different perspectives are listened to and taken into consideration. Its changes to the Takeover Code that codify market practice are an important contribution to transparency and certainty in the market.

Question 4.7: How can regulation support responsible and informed risk-taking?

45. We believe there is a role for regulation to educate consumers and investors about risk and to support firms taking responsible and informed risks. This role is a necessary counterbalance to the tendency of regulation to discourage risk-taking. An example of the latter effect is the long-term withdrawal from equities by pensions and insurers. The accounting rules for pension funds and regulatory changes for insurers may be among the regulations responsible for causing this.
46. Outcomes-focused frameworks, such as the Consumer Duty, can reduce unnecessary complexity, while allowing firms to innovate and tailor their approaches to meet customer needs. By providing flexibility, these regulations enable businesses to adapt and take strategic risks that align with their unique models and markets, if they demonstrate adherence to high-level principles like fairness, transparency, and accountability.
47. Another advantage of a principles-based approach (rather than rules-based), such as the Consumer Duty, is that it may also encourage a cultural change in firms' approaches to compliance. Rather than focusing on what's required to comply with the rules, firms may take ownership of delivering the desired outcomes and innovate in how they achieve that, given the increased flexibility.
48. On the other hand, a rules-based approach (for example, the historic approach through the FCA Handbook) can have advantages too. Firstly, detailed rules can provide clarity around compliance. Secondly, for smaller firms, without the resources of large compliance teams to develop an outcomes- or principles-based approach, following a set of rules can reduce compliance costs. In addition, a stable and predictable regulatory environment is critical for informed risk-taking. Firms need clarity about what is permissible to make confident decisions.
49. As such, the best approach may be a combination of both principles and rules – with principles being over-arching and setting out the high-level approach, complemented by some detailed rules in certain areas where clarity and certainty are needed, particularly where consumers and retail investors are concerned.

REGIONAL GROWTH

Question 4.9: How can we capitalise on synergies between different regional financial services hubs to support growth?

50. ICAEW has many members operating in Wales and Scotland and invests in local offices that form close relationships in those markets, including with policymakers, the business community, and other key representative organisations.
51. Our members and local offices have first-hand experience of the reach and reputation of the activities of the Development Bank of Wales (DBW) and the Scottish National Investment Bank (SNIB) and engage closely with representative bodies, such as Scottish Financial Enterprise (SFE). We are very supportive of the paper's emphasis on the UK's strong regional financial services hubs. Each region has strengths that, through a policy of interconnectedness and cross-fertilisation, can contribute to the growth of financial services at the national level. We identify below examples where collaboration and sharing of experience (operational and financial performance) would benefit the UK as a whole:
    - Backed by the Welsh Government, the Development Bank of Wales provides debt and equity funding for companies based in Wales, or relocating to Wales. Their mission is to unlock potential in the Welsh economy by increasing the supply and accessibility of sustainable, effective finance while promoting and advancing a green future in Wales. The DBW Group also includes FW Capital, which is authorised and regulated by the Financial Conduct Authority, which provides loans from £100,000 to £2 million for businesses in the North and South West of England as well as Wales. DBW's reach beyond businesses in Wales, and its record in green lending and lending to microbusinesses, could be leveraged in other UK regions.

- The Scottish National Investment Bank's (SNIB) recognition of the vital interplay between green energy transition and financial services together with its investment in small-scale but innovative initiatives using natural capitals are areas that would yield benefits beyond Scotland, through interconnectedness with, for example, the National Wealth Fund.

SKILLS AND ACCESS TO TALENT

Question 4.10: What is your assessment of the UK's ability to attract global talent to the financial services sector?

52. The UK are competing with the other leading financial centres to attract workers from a highly skilled globalised talent pool. Without a joined-up approach to attracting and keeping global and domestic talent, the UK risks losing its status as a leader in financial services.
53. It is therefore very important for government and statutory regulators to boost the mutual recognition of professional qualifications between the UK and other countries. This will ensure that UK employers have access to the knowledge and skills they need to deliver and grow financial services and enhance the economy.
54. In this area, we welcome the Department for Business and Trade's (DBT) now well-established grant scheme to support professional bodies and regulators in forming international recognition agreements with their counterparts. We would like to see this scheme continued and expanded.
55. Regulatory culture change is also needed. It is important that the UK becomes more open to recognising professionals who qualified in other countries. Part of this is a legal challenge, for example regarding provisions in the Companies Act, 2006. There are two dimensions to this. Sometimes it may be necessary to amend the actual wording of the law. But other times, there is a quicker way to the goal. The government and the FRC could agree that a formal change to the law is not needed. Instead, a new interpretation needs to be placed on existing legal wording, to operate the existing legislation more flexibility.

Question 4.11: What is your assessment of the UK's ability to effectively upskill and reskill domestic workers for roles in the financial services sector?

56. We need to improve young people's perception of the financial and professional services sector. The reality is that perceptions matter, particularly when coupled with poor career advice and planning. An early action could be investment into school careers services, which have been underfunded in recent years. Every young person should have a clear roadmap, guidance and support. This should help them into the areas where they can best match their skills and interests with the needs of the economy. The reality is that this roadmap is not clear for far too many young people, and with modern technology there is no excuse for this.
57. Our members tell us that access to appropriate skills is one of the largest limitations to turning business potential into reality. As part of the high-tech economy of the future, we will rely ever more on high-level skills. Skills will become an even more critical determinant of economic performance. This is as true for financial services as it is for other strategic sectors.
58. ICAEW is concerned that the government's proposals to remove the levy funding for L7 apprenticeships will have significant adverse consequences on the financial services sector's access to professional and technical skills. The proposal points to an inconsistent approach between government departments in delivering its economic objectives:
    - The recent Skills England report[4] notes how "financial and accounting technicians" are the third most critically in demand roles in the Financial and Related Professional Services sector. The change in funding will result in an estimated 5,000 young people no longer having the opportunity to undertake an ACA qualification as an L7

[4] Skills England: driving growth and widening opportunities, Department for Education, 2024

apprentice. This would make a critical labour shortage even worse. The DfE's approach appears to be inconsistent, having on the one hand identified a critical demand (based on the data in the Skills England report), and on the other hand, seeking to remove funding.

- The shortage will only become further exacerbated by proposals from HMRC on raising the standards on tax advice[5], by requiring tax advisors to be members of Chartered bodies such as our own. Without coordination with DfE, a talent pipeline for these professionals will be cut off. We risk introducing a critical reduction in new chartered accountants, while introducing greater demand for their services.
- Professional and business services are one of the eight growth-driving sectors identified in the DBT industrial strategy green paper. The removal of one of the ACA's talent pipelines will impact the ability of this sector to drive growth and will have unintended wider consequences for the whole economy. For the government to deliver growth, it cannot prioritise sectors, while making it more challenging for individuals to enter those very sectors.
- For ICAEW's ACA qualification, the global average salary of professionals 2-years post-qualified is £57,000, which is around 50% more than the UK median[6]. Approximately half (48%) of the students taking our qualification through Level 7 apprenticeships are first-generation students (i.e. neither parent has a degree), making this an effective vehicle for socioeconomic mobility, wealth creation and future tax revenues. This is a priority that the government made clear in their manifesto[7], committing to "breaking barriers to opportunity" with high quality apprenticeships.

59. More people in medium or low-skilled roles leave FS employment[8], than move into highly-skilled roles in the sector, each year. This suggests that more could be done via government intervention in supporting upskilling and reskilling for adults in employment in financial services, particularly as this is a key sector identified in the industrial strategy.

INTERNATIONAL PARTNERSHIPS AND TRADE

Question 4.13: What opportunities should the government seek to advance through its international financial services relationships?

60. The UK government should promote cross-border regulatory harmonisation to enhance competitiveness and efficiency. By aligning regulatory frameworks with key partners such as the US and EU, the UK can reduce compliance costs for firms operating across jurisdictions. This approach would also lower barriers to trade and investment.
61. However, the UK must also avoid a race to the bottom in terms of regulatory standards. This will help to maintain our leadership role in financial services. Instead, the government should advocate for a globally consistent approach that supports innovation, while ensuring fair competition and market stability.
62. To prevent regulatory arbitrage, the government should focus on high-risk areas, such as prudential requirements for banks and insurers. Recent crises, such as those involving Silicon Valley Bank[9] and Credit Suisse[10], highlight the dangers of diluted standards and the potential for broader destabilisation of financial systems. By promoting global rules that are robust yet balanced, the UK can ensure a level playing field, while safeguarding the integrity of financial markets.

[5] Raising standards in the tax advice market – strengthening the regulatory framework and improving registration, HMRC, 2024
[6] Employee earnings in the UK: 2024, ONS, 2024
[7] Labour Manifesto – Break down barriers to opportunity, Labour Party, 2024
[8] Bridging the skills gap in a rapidly evolving sector, Financial Services Skills Commission, 2024
[9] Collapse of Silicon Valley Bank - Wikipedia
[10] 'Credit Suisse is part of our history': shocked nation digests bank's collapse

SUSTAINABLE FINANCE

Question 5.5: In the UK's sustainable finance framework, as set out in the Chancellor's Mansion House package, do you see barriers or gaps that would support the growth and competitiveness of the UK sustainable finance market?

63. The transition to a decarbonised, nature-positive world brings huge business and economic opportunity. To ensure the government achieves its mission to make the UK a clean energy superpower, tangible steps are needed to engage business behind the vision.
64. The Regional Growth Funds, now closed, demonstrate how government can deploy public funding to secure private sector investment. Commitment to a similar vehicle which can engage skilled expertise from chartered accountants and other professionals will help ensure that state investments are channelled in the most productive way, while governance and accountability are upheld. We would welcome further engagement with Ministers as the green finance strategy develops to ensure that the sector plays its part in capital mobilisation.
65. The government needs to cement its manifesto commitment to position the UK as the green finance capital of the world, with London as the first net zero, nature positive aligned financial centre.
66. Delivering the promised UK green taxonomy will help businesses and investors identify products that can deliver both environmental and economic benefits. Business needs certainty to be able to be fully engaged in scaling solutions so that transition is affordable to all. Providing clarity on the timing and process for the UK's adoption of international sustainability reporting standards will also help to promote the UK as a leading player in the sustainability assurance market. Assurance over sustainability reporting adds credibility to the disclosures made; a commitment to introduce an appropriate assurance regime would help the UK keep pace with the EU, which has already introduced requirements for mandatory assurance of sustainability reports.
67. It is important for the delivery of its mission that the government leads the way by publishing a whole economy UK National Transition Plan, integrated with this strategy, that articulates a pathway for the whole economy that is socially just and that embraces a nature positive outcome for the UK, coupled with an investment strategy and a delivery tracker. This could be rooted in the work of the Transition Plan Taskforce, which was led by Aviva and HM Treasury and has been outlined by CETEx at the LSE. A national transition plan is a necessary condition for businesses to be able to publish credible transition plans of their own. We recommend that government co-creates the plan not just with business but with civil society. There is considerable work being done on this kind of collaboration, for example by WBCSD and BRAE. Finally, given that 1.5 degrees has this year been breached for the first 9 months of the year we must accept that the hopes of "keeping 1.5c" are fading. In the light of this, adaptation is now more important than ever for building resilient financial markets, businesses and communities, especially as the UK is well behind on its National Adaptation Plan (Independent Assessment of the Third National Adaptation Programme - Climate Change Committee) and this should figure strongly in any national transition plan/industrial strategy.

Question 5.7: What are the opportunities and barriers for the financial services sector in developing the products and/or services necessary to facilitate investment into the net zero transition?

68. Barriers include the current limitations in methodologies and data quality, particularly concerning Scope 3 financed, facilitated, and insured emissions, which are crucial for banks and insurers due to their extensive asset holdings and the nature of their liabilities (for example insurance contracts). The inconsistency and incompleteness of existing methodologies can lead to significant measurement challenges and double counting issues. These barriers can hinder the development of transition plans, in particular where those plans are reliant on being able to accurately measure improvements in the carbon footprints of firms and their value chains. We would encourage greater focus by regulators such as the

© ICAEW 2024

FCA who are going to be tasked with supervising the implementation of mandatory transition plans for listed firms.

69. However, we do welcome steps taken by government to progress the green taxonomy which provide greater clarity as firms put together transition plans and look to decarbonise their business models.

CAPITAL MARKETS (INCLUDING RETAIL INVESTMENT)

Question 5.8: Are there any barriers to growth in capital markets that are not being targeted by existing government reforms? How can private and public markets be grown so that they best support UK growth?

70. The reforms of the previous and current governments have been principally focused on the mechanisms and availability of choice of markets for raising finance. This focus is understandable as being a leading centre for financial services is an outsize UK strength. It is important, however, not to omit attention to essential enablers to growth in capital markets.

71. A policy that promotes ‘cross-fertilisation’ through interconnectedness to underpin strong, resilient and competitive capital markets is, in our view, a significant omission. Such a policy would complement and likely amplify the impact of other reforms, if formed with the following objectives:
    - educate on the nature and purpose of a learning culture; and
    - promote the benefits of learning through collaboration, peer groups, expert exchanges, interaction through networks and clusters, and access to advice.

72. Research[11] into the differences in performance between UK/European venture capital funds and US venture capital funds partly attributes these to US practices that include the ones suggested above.

73. A recent paper[12] has shown that taking external advice had positive outcomes for individual businesses, including on their potential for innovation and boosted productivity. ICAEW has long recognised the benefit to a business that professional advice can have and enables many member firms to offer an hour of professional advice on a complimentary basis through our Business Advice Service. Other channels of expert advice are also available, e.g. through business networks and trade bodies.

74. The government should help mitigate the cost barrier to seeking external advice and not simply rely on initiatives of commercial entities. There is a strong case for implementing a scheme (e.g. business growth vouchers) to subsidise the cost and encourage businesses to secure appropriate advice.

75. A policy framework encapsulating the above will signal that substantial entrepreneurship and investor skills can also be relayed and picked up other than through structured learning. We recently proposed that the government should play a more active role in interconnecting factors that encourage and embed a UK growth culture.

76. As alluded to in our response to Q4.9, such a framework should extend to financial services hub level.

Question 5.9: Are there any barriers to retail participation in UK capital markets? What more can be done to encourage consumers to invest in capital markets to a longer-term time horizon?

77. Retail participation in UK capital markets is possible through long-established channels such as ISAs, pensions, OEICS, investment trusts, AIM shares, tax-advantaged schemes such as VCT and EIS. More recently, crowdfunding has provided opportunities for retail investment and there are plans to introduce Private Intermittent Securities and Capital Exchange System

[11] Exploring the difference in performance between UK/European venture capital funds and US venture capital funds - Enlighten Theses
[12] Advice and SMEs: Who Takes it and What Happens Thereafter? - Enterprise Research Centre

(PISCES), initially within a sandbox, through which certain retail investors will be eligible to trade shares in private companies.

78. Guardrails for retail investment in capital markets are necessary given that capital is at risk. Participation through regulated intermediaries is one, however access to professional advice can be poor and/or extremely costly. The regulated sandbox is also pivotal both to enable firms to innovate safely and for the regulatory approach to be tested. This tends to mean that retail investors are not typically afforded early opportunities to participate in new products and services. This limitation is both necessary and appropriate and we do not advocate change in the context of new products and services.

79. There are opportunities for retail investment in UK capital markets and we do not believe that retail investors should be encouraged or enabled to participate in high-risk investments such as in early, high-growth or scale-up businesses. We do however recognise the existence of certain barriers to uptake. As explained below, these exist for consumers as well as at the authorised intermediary level.

80. For many consumers there is insufficient early education on personal savings and investment. For others, regular changes to the tax treatment of different products end up moving the goalposts, creating uncertainty and disincentive to proceed with investment.

81. Access to professional advice can be unaffordable because of the cost of the business model of intermediaries. Moreover, examples of regulatory or market failure without timely accountability and recompense for those who suffer losses, succeed in undermining confidence to invest.

82. For intermediaries, the complex and voluminous regulatory rulebook is difficult to absorb and interpret. The extent of dedicated resource needed is an impediment to smaller players and new entrants to the retail investment advice market. The regulatory burdens on retail investment advice firms are increasingly onerous and costly, particularly for smaller players. Professional Indemnity Insurance (PII) insurance represents a disproportionate cost as there is no regulatory time limitation for claims to be sent to the Financial Ombudsman Service (unlike, generally, a 15-year limitation under tort).

83. Existing areas of reform across wider financial services are focused on reviewing and simplifying regulations, without removing investor protections. Moreover, there have been enhancements of standards since the introduction of the FSMA. Regulatory developments for new technologies and potential opportunities have tended to result in piecemeal changes to the rulebook and there is evidence in parliament of the spotlight on the FCA's conduct of business rules. The boundary between generic advice and regulated advice, while under review, must be aligned to the new Consumer Duty.

84. All this suggests there are grounds for the government to explore a comprehensive review of the rulebook, how frictions such as the above might be minimised and how to simplify and implement a future-proof regime without compromising protection.

INSURANCE AND REINSURANCE MARKETS

Question 5.11: What are the barriers to innovation in the UK's insurance markets?

85. Reforms to Solvency UK which are likely to release additional capital across[13] the insurance sector (tens of billions of pounds over 10 years) and provide greater flexibility as to which assets insurers can invest in, including infrastructure projects and green investment, are welcome changes and should spur growth. However, to ensure that the reforms support UK assets, we advocate a close and constructive partnership between government and the private sector – for example, by setting out a more coherent industrial strategy and bringing in investors and insurers early into the investment and project lifecycle.

[13] Consultation_Response_-_Review_of_Solvency_II_.pdf

© ICAEW 2024