FINANCING GROWTH

LABOUR'S PLAN FOR FINANCIAL SERVICES

Labour

Contents

Foreword

Labour's defining economic mission is to restore growth to Britain. This calls not just for a change in government, but a change in mindset: an active government prepared to work in partnership with business to remove the barriers to economic success. Too often in the last decade, British politicians have sounded embarrassed about the sectors in which we excel, and reticent to talk up our strengths not just in financial services but more widely in professional services, universities, or cultural industries. That will change with Labour. We will unashamedly champion our financial services sector as one of the UK's greatest assets. Our history as an innovating, industrious, trading nation was built on the foundations of a strong financial sector. The same can be true of our future.

What we offer is a proudly pro-business, pro-worker government, building on Britain's strengths. The 2008 financial crisis exposed the dangers of an inadequate regulatory regime and dealt a blow to the standing of our financial sector. There can be no going back to the regulatory regime that existed before the dawn of the crisis, and a Labour government will not compromise on long-term stability or the wider public interest. But Britain's economic success will depend on the success of our financial services sector. The sector can be a powerful engine for inclusive growth through delivering high quality jobs, services exports, tax revenues to support strong public services, a source of pride for communities across the United Kingdom, and a crucial funding source for our transition to net zero.

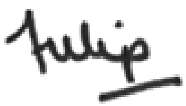
Labour's economic approach – what we call 'securonomics' – is about offering an alternative to financial instability and economic insecurity. We have heard time and time again the frustrations from industry about the chopping and changing of government policy, which creates uncertainty among investors and undermines the competitiveness of the sector. Rachel Reeves spent most of the first decade of her career at the Bank of England; she understands the importance of financial and monetary stability to Britain's economic success. A Labour government's first priority will be to provide a secure policy platform for growth, one which builds on the celebrated strengths of the sector, backs innovation, entrepreneurship and long-term investment – and supports all UK citizens to strengthen their financial security. With Labour, regulation will be stable and predictable, and guided by a set of priorities crucial to the success of the sector: efficient, proportionate, incremental, and coordinated across government. That must also mean a balance between consumer protection, competitiveness and financial stability in defining our policy agenda.

A strong financial services sector isn't just an engine for growth. It helps Britons reach their financial goals, save for their future, and support their families. We will champion financial inclusion to ensure all people have access to affordable products and services to support their financial wellbeing. We believe a strong financial services sector will drive investment in jobs and new industries. Our financial sector can be a vehicle for growth not just from the top down, but from the bottom up and the middle out.

There is no challenge more urgent than that of climate transition. But this is an opportunity too, to drive down bills, lead in new and growing industries, and create jobs. We know that realising our ambitions will require private investment. Our FS sector is financing our transition to net zero, and enabling the growth and scale up of innovative green technologies through lending, investment, and insurance. FS firms are pioneering new ways to leverage technologies like AI to deliver better and more affordable offerings for consumers.

This report is the first stage in outlining Labour's vision for the future of Britain's financial services, and reflects the hundreds of conversations we have held with financial services firms, consumer groups, and other FS stakeholders since 2021. This agenda will continue to develop, so that a Labour government can deliver on our commitment to spur investment, restore economic security, and revive growth.

Rachel Reeves MP
Shadow Chancellor



Tulip Siddiq MP
Shadow Economic Secretary to the Treasury

FINANCIAL SERVICES REVIEW ADVISORY PANEL

We would like to thank the members of the advisory panel who have acted in a personal capacity to provide invaluable support for this financial services review. The members of the panel are:

Susan Allen
Chief Executive Officer of Yorkshire Building Society

Sir Douglas Flint
Chair of abrdn, IP Group, and UK Digitisation Taskforce

Nigel Higgins
Group Chair of Barclays

Sir John Kingman
Chair of Legal & General Group

David Schwimmer
Chief Executive Officer of LSEG

Dame Elizabeth Corley
Chair of Schroders and Impact Investing Institute

Anne Glover
Chief Executive and Co-Founder of Amadeus Capital Partners

Sir Ron Kalifa
Senior Independent Director, Bank of England and author of Kalifa Review of UK Fintech

Charles Randell
Member of the Financial Inclusion Commission and former Chair of the Financial Conduct Authority

Shriti Vadera
Chair of Prudential

The members of the advisory panel have provided strategic guidance on the review. The content of this report does not necessarily reflect the views of any of the members of the panel or their organisations.

EXECUTIVE SUMMARY

The financial services sector is one of Britain's success stories. It contributed 12% of the UK's economic output in 2023.[1] It drives economic growth and creates jobs and prosperity. Labour's first mission in government is to secure the highest sustained growth in the G7, with good jobs and productivity growth in all parts of the country. This will only be achieved if we champion the UK's role as a global leader in financial services.

Our vision for the sector is based on six policy priorities:

1. **Deliver inclusive growth of the UK's financial services sector** by scalling regional financial centres alongside established hubs in London and Edinburgh and unlocking the full potential of the mutuals sector.

2. **Enhance the international competitiveness of the UK's financial services sector** by pursuing a more joined up and innovation-centred approach to regulation and supervision, streamlining the regulatory rulebook in line with the Consumer Duty, strengthening our international engagement in financial services, and building a more collaborative relationship with the EU.

3. **Reinforce consumer protection and financial inclusion** by exploring alternative models for increasing financial resilience including longer-term fixed rate mortgages, adopting a coordinated cross-sectoral approach to fraud prevention, creating a national financial inclusion strategy, and regulating the Buy Now Pay Later sector.

4. **Lead the world in sustainable finance** by making the UK a global hub for green finance activity, delivering a world-leading green finance regulatory framework, and partnering with the financial services sector to support the decarbonisation of our homes.

5. **Embrace innovation and fintech as the future of financial services** by becoming a global standard-setter for the use of AI in FS, delivering the next phase of Open Banking, defining a roadmap for Open Finance, embracing securities tokenisation and a central bank digital currency, and establishing a regulatory sandbox for financial products to reach underserved communities.

6. **Reinvigorate our capital markets** by reviewing the pensions and retirement savings landscape, enabling greater consolidation of all types of schemes, empowering the British Business Bank to invest more in growth capital, establishing a British 'Tibi' scheme to increase institutional investment in venture capital and small cap growth equity, and increasing investment in infrastructure and green industries through Solvency UK reforms.

This is our first statement of intent for financial services. Labour is committed to working in partnership with the sector to define a detailed policy agenda to support growth across the country, embrace innovation, and enhance people's financial wellbeing.

INTRODUCTION

Financial services are one of our country's greatest assets. Growth in the financial services sector is growth for the whole economy. The financial services sector provides £100 billion in tax revenue[2], and employs over 1 million workers.[3] The UK is the second largest services exporter globally[4], with financial services exports amounting to £97 billion in 2022.[5]

The UK's financial services sector is also central to driving growth in the wider UK economy. We have some of the deepest capital markets in the world, and are a global hub for trade finance, commercial and investment banking, reinsurance, international debt issuance, foreign exchange trading, and asset management.[6] A strong FS sector helps people save for the future, buy homes, insure themselves against risk, and support future generations.

Today the sector spans the whole of the UK. London is a top international financial centre, second only to New York.[7] Two-thirds of jobs in the financial and related professional services industry are outside London.[8] Edinburgh and Birmingham, as well as Manchester, Glasgow, Cardiff, Belfast, and Leeds have distinct FS strengths.

However, Britain's role as a global leader is not guaranteed. Our position is challenged by the scale of capital markets in the US and the growth of emerging financial centres in Asia. In the aftermath of the Global Financial Crisis and Brexit, FS firms have grappled with significant changes in the policy and regulatory environment, most recently driven by the failure of the government to prioritise the interests of the sector in its negotiations with the European Union. The Edinburgh Reforms, while a welcome move to tailor our regulatory framework for financial services, have been labelled a "damp squib" by the cross-party Treasury Committee for falling short of delivering real impact for the UK economy.[9] Government has failed to provide a stable and consistent policy environment to give FS firms the certainty they need to grow.

Labour will take an industrial strategy approach to all economic policy, including FS. Labour's ambition is for the FS sector to be the engine of growth in the UK economy, by providing the policy and regulatory environment it needs to compete on a global level and increase investment in the UK economy. Labour will harness the power of what makes us a world leader in FS – our thriving financial and professional services ecosystem, concentration of expertise, global reputation for high-quality regulatory standards, English common law framework, and time zone – to lead the world in green finance and innovation.

Our guiding principles for FS policy are to:

- Promote our financial services sector as one of our competitive advantages.
- Balance consumer protection, competitiveness, and financial stability.
- Support the independence of the UK's financial institutions.
- Maintain our commitment to fiscal responsibility.

This review covers financial services and related professional services, which are defined as the accounting, legal, and management consulting services in direct support of the financial services sector. This review does not cover: skills and mobility, tax, data, planning and infrastructure; many of which are covered in other existing Labour policy.

DELIVER INCLUSIVE GROWTH

This section sets out how Labour will seek to ensure the economic contribution of financial services reaches all parts of the country and benefits all people.

Our FS sector spans the whole of the UK. London is a top global financial centre. Edinburgh is an historic financial centre with a particular concentration in asset management. Manchester, Glasgow, and Cardiff have thriving insurance sectors. Birmingham is the country's second largest financial services hub, hosting the headquarters of HSBC, the new regional office of Goldman Sachs and all 'Big 4' accountancy and audit firms. Belfast is home to two major international firms – Citibank and CME Group. Leeds is a leading banking hub, and it is expanding its fintech cluster through the Centre for Financial Technologies and Innovation at University of Leeds. Cardiff and Manchester are home to leading challenger banks such as Starling Bank and OakNorth.

Smaller and mid-tier firms, including fintechs and banks, have set up operations outside of London to access local talent and lower costs, and increasingly major incumbent firms are establishing additional regional offices to take advantage of the same benefits. The development of sub-sector specialties in these regional hubs creates a network effect which can draw in more firms.

The jobs offered by the financial services sector are well-paid, high-productivity jobs. Financial services productivity is almost 2.5 times higher than whole economy productivity.[10] As the sector grows, Labour wants to see more of these benefits spread across the UK. The financial services sector benefits heavily from agglomeration and network effects, and the flourishing clusters laid out above provide significant opportunities for regional growth.

A Labour government will look to enable the growth of regional financial centres alongside London and Edinburgh through initiatives to expand the footprint of the sector

Based on the model of other pension funds, Labour will work with local government pension schemes (LGPS) to set out best practice for adopting similar, cost-effective in-house fund management capabilities within pools to deliver better returns for savers and create new jobs in regions and nations.

- As recommended in the 'Start-Up, Scale-Up' report[11], Labour will explore setting additional KPIs for the British Business Bank (BBB) regional funds to ensure they provide access to SME financing across all regions.
- Labour supports the goals and ambitions of the Harrington Review of Foreign Direct Investment. In line with the recommendations of that review, we will ask the Office for Investment to act as a support unit for international financial services firms looking to set up operations in the UK. The Office for Investment will liaise with devolved administrations, local authorities, universities, regional bodies, trade associations, and other stakeholders to advise companies on the best locations for them.
- Labour will evaluate innovative place-based impact investing models to crowd in more private finance to fund development of cities and regions.[12]
- Labour will establish Skills England to support deeper talent pools in regional financial centres.

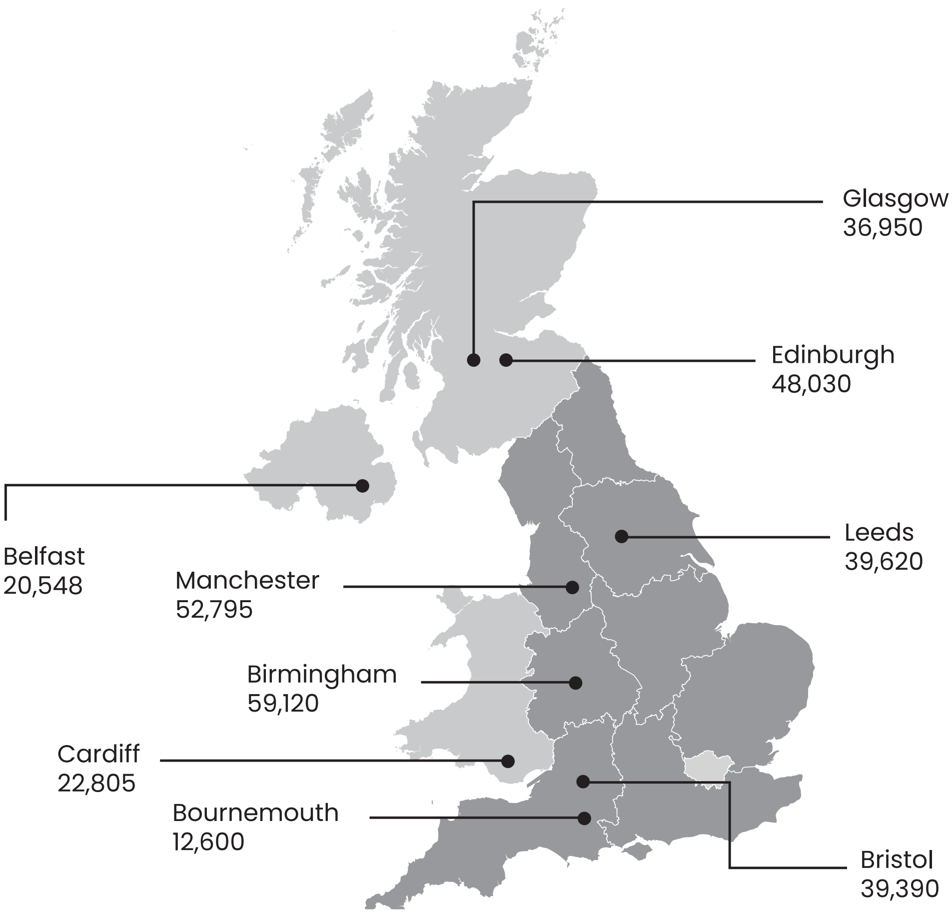
Unlock the full potential of the mutuals sector to support regional development

Labour will aim to double the size of the UK's co-operative and mutual financial services sector. The structure of member-owned mutual organisations makes them more community oriented than other banking institutions. The reach of the sector spans the whole of the UK – for example, all major building societies are headquartered outside London.[13]

Labour supported the reforms in the Financial Services and Markets Act (FSMA) 2023 which allow credit unions to offer more products, and a Labour government will build on this to:

- Require financial services regulators and policymakers to report annually to Parliament on how they have considered the specific needs of mutuals and the need for a level playing field with the wider financial services sector.
- Modernise the Building Societies Act including new provisions to change which fund sources count towards building societies' retail funding limits.
- Strengthen the SME bank referral scheme to support more businesses who are rejected for loans from banks to secure financing from alternative sources including cooperatives, building societies, and community development finance institutions. Labour will also explore the need for a similar referral scheme for households.

Employment in UK regional financial hubs (2021)



Source: TheCityUK, 2023, Key facts about UK-based financial and related professional services 2023.

WOMEN IN FINANCIAL SERVICES

Labour's Shadow Chancellor Rachel Reeves and Shadow Economic Secretary Tulip Siddiq are passionate advocates for increasing the representation of women at all levels in financial services. Increasing diversity broadens and deepens the talent pool, and delivers better outcomes for businesses. Companies with the most diverse workforces outperform their less diverse peers by 29%.[14]

Labour recognises that to harness the full potential of financial services and drive better investment decisions across the economy, we cannot neglect the talents of half of the workforce and we must increase representation of women at all levels of the sector. The sector has made some welcome progress in recent years. However, in 2022, only 9 FTSE 100 companies had female CEOs.[15] The gender pay gap in FS stands at 26.6%, compared to 12.1% for the broader UK market.[16] In fintech, the data is also stark – with only 17% of senior roles held by women[17], and only 10% of board seats held by women.[18]

Representation of women of colour is a particular challenge for the sector. Black women are the least likely to be top earners in financial services.[19] The Financial Services Culture Board found that white women outnumber women of colour in line management roles 10 to 1.[20]

To deliver progress, a Labour government will:

- Support the first of its kind guidance on diversity and inclusion for financial services led by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), and consider opportunities for expanding the focus to include socioeconomic diversity.
- Continue the ground-breaking work of the Women in Finance Charter, championed in industry by Amanda Blanc, to increase gender diversity in financial services through reporting on firm-level gender representation in senior management.[21]
- As recommended in the 'Start-Up, Scale-Up' report, develop two additional KPIs with the BBB to set an investment allocation target for women and ethnic minority founders, and report on the percentage of applications considered from women and ethnic minority founders.[22] Labour will build on the Investing in Women code with a similar code for ethnic minority founders and report on progress.[23]
- Address the drivers of the gender pay gap through Labour's on-going review led by Frances O'Grady.

Increasing diversity in financial services broadens and deepens the talent pool, and delivers better outcomes for businesses.

ENHANCE INTERNATIONAL COMPETITIVENESS

Despite our great strengths, our world leadership in financial services is not a given – we must continually evolve in the face of greater competition. Since 2018, London has fallen to second place in the Global Financial Centres Index, behind New York.[24] The City of London Corporation's international competitiveness survey ranked London as the top financial centre in 2023 but noted a reduction in capital markets activity, foreign listings, and assets under management compared to previous years.[25]

A key determinant of the UK's global competitiveness is the extent of cross-border access for firms operating from the UK. Our strong ties to other international financial centres are central to the UK's position as a leading financial services hub. The US is our largest export market for financial services, with 34% of total sector exports, closely followed by the EU at 29%.[26] Emerging financial centres in Asia and Africa offer the opportunity for increasing our FS exports to other markets. We recognise that firms in the UK are established not only to serve the domestic market, but also customers and businesses around the globe. Our interconnectedness deepens our capital markets and expands opportunities for firms that operate from the UK.

The UK's global competitiveness in financial services is underpinned by its reputation for high regulatory standards and strong supervision. However, as finance and technology continue to converge, now is the time to ensure our regulatory environment promotes innovation to deliver better customer outcomes, increase investment, and enhance the UK's competitiveness, whilst reinforcing financial stability and consumer protection. Labour supported FSMA 2023 and in particular the regulators' secondary objective on competitiveness and growth, but is determined to go further in ensuring both that our regulatory environment and our engagement with international jurisdictions strengthens the attractiveness of the UK financial services sector.

Improve the efficiency of regulatory and supervisory activities and promote a joined-up approach focused on innovation

A future Labour government will, in consultation with the sector, work to identify overlaps and gaps in regulatory mandates across bodies including the PRA, FCA, Competition and Markets Authority, The Pensions Regulator, and Payment Systems Regulator (PSR). Labour will promote best practice in cross-sectoral regulatory coordination, including through data-sharing and integration of new technologies (e.g. RegTech/SupTech), and adapt oversight to accommodate innovative technologies and business models. This work will take a forward-looking approach in its review of the regulatory landscape, rather than reconsidering reforms which are currently in-flight or recently put in place (e.g. FSMA 2023).

Alongside this, a new Regulatory Innovation Office, which Labour will set up to improve accountability and promote innovation in regulation across sectors[27], will promote transparency on regulator performance, including the new metrics for the FCA and PRA to demonstrate progress towards the secondary objective on growth and competitiveness.[28]

Uphold the ring-fencing regime

Labour is committed to upholding the ring-fencing regime to protect financial stability, and supports the on-going work to align with the resolution regime, as recommended by the Skeoch Review. This will limit bureaucracy for banks which are subject to both regimes whilst reinforcing the stability of our financial system.

Streamline the regulatory rulebook to align with the Consumer Duty

Labour strongly supports the regulators' secondary objective on growth and competitiveness, and recognises the value of the FCA's Consumer Duty as outcomes-focused regulation which reduces harm to consumers and ensures that firms deliver fit for purpose and affordable products and services.

This outcomes-based approach provides an opportunity to streamline some of the duplicative and excessively procedural rules in the FCA's more than 10,000-page regulatory handbook. The FCA is planning to undertake a review of its rulebook, the volume and complexity of which can obstruct competitiveness and growth.

Labour will direct the FCA to issue an open call to industry to identify rules which have been made redundant by the Consumer Duty, and will call on the FCA to define a transparent process for evaluating and responding to suggestions. Labour respects the FCA's independence in determining the appropriate changes in line with the Consumer Duty.

Promote our financial services sector internationally

Labour supports the on-going work on the Future Regulatory Framework to define a regulatory framework which advances the future of the UK's financial services sector outside of the EU. Labour will strengthen our engagement with international jurisdictions to increase services exports and collaborate on shaping international standards.

We will:

- Expand the UK's agreements with international financial centres to increase financial services trade, including the fintech bridge with Singapore, the Berne financial services agreement with Switzerland, and the UK-Japan Financial Dialogue and Financial Regulatory Forum.

- Explore opportunities to promote and deepen relationships with rapidly growing financial centres to increase exports, promote robust practices in line with international standards and encourage regulatory alignment to improve cross-border access.

- Bolster the UK's engagement and leadership of international fora, including the Financial Stability Board, International Organization of Securities Commissions, Basel Committee on Banking Supervision, and International Association of Insurance Supervisors. Recent shocks to global markets, including from Russia's invasion of Ukraine and Covid-19, have demonstrated the importance of close cooperation between international regulators to mitigate shared risks and reduce market fragmentation.

Make Brexit work through cooperating with the EU in areas of mutual interest and removing unnecessary barriers for firms

Labour believes we must use our freedoms outside the EU to ensure the UK's regulatory framework best supports the needs of our financial markets. However, the EU remains one of the UK's largest trading partners for financial services and UK's leading financial services firms continue to operate across Europe. A future Labour government will adopt a more pragmatic and cooperative approach to working with the EU in areas where it is mutually beneficial.

Labour will:

- Seek to build on the UK-EU Financial Services MoU which established the regulatory dialogue to deepen cooperation in emerging areas of financial services, such as green finance, and identify opportunities to make our approaches compatible.

- Work to secure comprehensive arrangements for mutual recognition of professional qualifications with the EU to facilitate greater sharing of expertise and cross-border trade.

- Explore opportunities to reduce barriers to trade in areas where our regulations deliver similar outcomes, including finding a sustainable solution for cross-border clearing.

REINFORCE CONSUMER PROTECTION AND FINANCIAL INCLUSION

Financial services are essential to millions of people. 70% of UK adults have a savings account, 57% are saving for their retirement, and 28% own a property with the support of a mortgage.[29] However, at the same time, over 1 million people do not have a bank account[30], and around 14 million have less than £100 in savings.[31]

This matters because improving access to financial services increases people's resilience and supports better financial decision-making. Additionally not having access to basic financial services can exacerbate so-called 'poverty premiums' – for example, the University of Bristol found that people without a bank account pay up to £485 more per year for basic services.[32]

Labour has set out an economic agenda guided by 'securonomics.' For households, that means a recognition that people can only plan ahead and invest in their future when they have the economic security to do so – and financial services are key to ensuring that.

Labour will ensure no one is locked out from the services the sector offers, and that consumers are suitably protected when things go wrong.

Strengthen consumer protection

A Labour government will look to reinforce consumer protection in financial services by:

Adopting a joined-up approach to fraud

In 2020, £6.8 billion was stolen from consumers through fraud.[33] Reducing fraud in the UK requires an integrated approach across government, law enforcement, regulators, financial services firms, and tech companies to address the entire ecosystem which enables fraud to occur. This must involve a regulatory framework for tech companies and telcos to participate in the fight against fraud, including through sharing data with FS firms to enhance detection and prevention measures.

Empowering payment services providers to delay possibly fraudulent payments

The lack of friction in the UK's real time payments system can make it more difficult to integrate additional fraud prevention checks. A Labour government will support the work by the FCA and the PSR to allow payment services providers flexibility to delay suspicious payments. Labour will also direct the FCA and the PSR to evaluate the potential impact of mandated delays on customer retention. And Labour will work with the regulators and payment providers to ensure there are appropriate dispute resolution processes for customers if payments are mistakenly delayed.

Regulating the Buy Now Pay Later (BNPL) sector

BNPL providers have been calling for regulation and the FCA has made clear it is ready to supervise the sector. However, government has kicked reform into the long grass, leaving millions of consumers unprotected and the BNPL sector in a state of uncertainty. Building on conversations with the sector, Labour has laid out a plan for regulation, which has received broad support from the sector, and can be implemented quickly to better protect consumers and provide certainty for BNPL providers.

Ensure everyone can benefit

The last Labour government prioritised financial inclusion, which led to a significant reduction in the number of people without a bank account, legislation for auto-enrolment in workplace pensions, and the setting up of a free money advice service to provide guidance and support. Labour will build on this legacy to ensure more people can benefit from the services offered by the sector:

Expansion of banking hubs

Almost half of bank branches in the UK have shut since 2015. Labour is committed to protecting vital banking services and will monitor the use and acceptance of cash. Labour will accelerate the roll out of at least 350 'banking hubs' which help people have free access to cash and wider banking services. Labour will work with banks and, where necessary, bring in new powers for the FCA to guarantee communities access to face-to-face banking services.

Reform of the advice and guidance boundary

In the UK, only 8% of adults have received advice from financial advisors.[34] Labour recognises the need to close the advice gap which is limiting people's ability to manage their finances. Labour supports the on-going consultation on the FCA's three proposals[35] to address the advice gap through the Advice Guidance Boundary Review, and will closely monitor the progress in closing the gap. Labour also recognises the importance of ensuring alignment between the new proposals and the statutory remit of the Money and Pensions Service to continue to provide free and impartial guidance on money and pensions. A Labour government will also work in partnership with regulators and industry to support FS firms to leverage data and emerging technologies like AI to produce widely accessible and affordable financial guidance tools with appropriate consumer protections in place.

Creation of a national financial inclusion strategy

A Labour government will develop a national financial inclusion strategy. The strategy will be designed and implemented by a committee chaired by a Treasury Minister with representation across government, regulators, arms-length bodies, civil society, and industry. It will coordinate work across the public and private sectors, including working with the Department for Education to increase access to financial literacy education in schools and colleges. Digital inclusion is also a critical enabler for financial inclusion, and the committee will consider how government and industry can support the 3.9 million digitally excluded individuals.[36]

Alternative ways to increase people's financial resilience

Labour will work with industry and consumer groups to explore ways to support people in increasing their financial resilience, including:

- Partner with the sector to encourage increased offering of longer-term fixed rate mortgages, which would allow people more choice over the level of interest rate risk they are willing to take on. Longer-term fixed rate mortgages could also help more first-time buyers access mortgages. A Labour government will work with industry to evaluate the barriers to increasing the diversity of mortgage offerings and will support people in understanding the benefits of different mortgage products. This will include reviewing mortgage markets in countries with a higher proportion of long-term fixed rate options, including Germany, Denmark, and the Netherlands.

- Work with the sector to pilot innovative approaches for encouraging savings, such as NEST Insights' workplace savings programme. A Labour government will review the legislative and regulatory barriers to enabling a more widespread roll out of innovative savings programmes.

LEAD THE WORLD IN SUSTAINABLE FINANCE

Climate change presents one of our greatest challenges, but also one of our greatest opportunities for economic growth. Globally, the green economy recorded a compound annual growth rate of approximately 14% over the last 12 years, increasing its market capitalisation from $2 trillion in 2009 to more than $7 trillion in 2021.[37]

London ranks first in the Global Green Finance Index with our concentration of sustainable finance expertise and depth of capital for green investments.[38] Britain can secure our place as the world leader in green finance, and capture more than £1 trillion of the global green economy[39], if we establish a clear, credible, and transparent framework to give investors the certainty they need to invest in the UK.

The UK has been a global convenor and international leader on the net zero transition. We were the first country to place a legal requirement on reducing emissions with the 2008 Climate Change Act. As host of COP26, the UK committed to becoming the first net zero-aligned financial centre and a leader in transition planning through the Transition Plan Taskforce (TPT). The UK has been a global standard setter on climate change including through the Bank of England's climate risk stress testing for banks and insurers, and our leadership of the UN Intergovernmental Panel on Climate Change.[40]

However, the UK's leadership has been compromised by the government's inconsistency on net zero policy. The government has undermined progress on the transition by rolling back targets which have eroded incentives to decarbonise and stalled delivery of the Green Finance Strategy. And it has failed to adopt the recommendations of its own Skidmore Review to lay out a roadmap for disclosures and standards to scale up green finance.[41]

The delays in producing the UK green taxonomy and lack of clarity on the future of the work of the TPT have left businesses uncertain about the UK's commitment to reaching net zero, while our peers, including the US, the EU, and China have made significant progress.

While the UK is outpaced by other jurisdictions in green capital flows, we are well-placed to increase green financing through capitalising on the concentration of sustainable finance expertise in the UK, combined with our international capital markets and historic track record as a leading voice on net zero. Labour's twin missions to make Britain a clean energy superpower by 2030 and secure the highest sustained growth in the G7 will enable us to build on our strengths and demonstrate our commitment to unlocking the full potential of the financial services sector to fund the green transition.

Reinforce the UK's global leadership in sustainable finance

A Labour government will make the UK an international leader and collaborator on the net zero agenda through the UK's role in the G7, G20, International Platform on Sustainable Finance (IPSF) and other multilateral fora. Through the global Clean Power Alliance, Labour will work with other countries to reduce the price of energy through increased investment, cooperation, and information-sharing on clean power sources.

Deliver a world-leading green finance regulatory framework

- Require financial institutions and FTSE 100 companies to publish their carbon footprint and adopt credible 1.5-C aligned transition plans.

- Advance the plans for the UK Green Taxonomy, ensuring it is science-based and interoperable with international standards, and user-friendly for business. The current government has delayed the taxonomy for over a year. A Labour government will define a clear timeline for completion of the taxonomy, and voluntary and mandatory reporting for all businesses in scope.

- Fulfil the UK's commitment to the Sustainability Disclosure Requirements aligned with International Sustainability Standards Board standards and the TPT disclosure framework to give businesses the certainty they need to comply with global net zero reporting standards. Labour will also carry forward the disclosure framework and sectoral guidance developed by the TPT and determine a clear timeframe for instituting voluntary and mandatory transition planning and disclosure requirements for other public and private businesses.

- Work with the sector and data providers to evaluate a potential model for tracking green finance flows to enhance the availability, consistency and reliability of sustainability related data, which will help attract investment to the UK to finance the net zero transition. Having better data will enable a future government to track investment in the UK's net zero transition, identify key sectors where there is underinvestment in relation to sectoral roadmaps, monitor green finance which transacts through London, and track the growth of the UK green economy.

- Explore the potential for nature-related finance through building on the work in the voluntary carbon markets and natural capital public-private partnerships.

- Ask the FCA, PRA, and the Treasury to consult on allowing banks and insurers to issue covered bonds secured against green infrastructure. A Labour government will extend the use of covered bonds for green assets to allow banks and insurance companies to borrow and lend more cheaply for net zero infrastructure, and therefore increase the level of their investments in green projects, without putting any costs on taxpayers.

Partner with the financial services sector to support greening the housing stock

Delivering on the UK's target to reach net zero by 2050 requires making current and future domestic housing more energy efficient. 19 million homes need to be retrofitted to reach an Energy Performance Certificate C rating in the next decade.[42] This requires a comprehensive cross-government approach to provide policy certainty and stimulate demand for existing schemes and loans. This review looks specifically at the role of financial institutions in supporting greening the housing stock. A future Labour government will:

- Work with banks to expand offering of affordable products to meet increased demand for retrofitting work including insulation, heat pumps, and solar panels.

- Support expanding the offering of green mortgages, which may be less expensive than other mortgages. This could include providing access to green mortgages to homeowners who complete retrofitting work, as well as including financing for retrofitting works within green mortgage offers for new homeowners.

- Following the model of the US Property Assessed Clean Energy programme, explore the potential for introducing property-linked financing which attaches debt accrued for retrofitting to the property rather than the owner. According to the Green Finance Institute, this innovative approach could increase investment in retrofitting buildings by £52-70 billion by enabling property owners to fund the cost of retrofitting upfront and only make regular payments towards the loan while they retain ownership of the property.[43]

EMBRACE INNOVATION AND FINTECH

The pace of innovation in financial services is driven by the growth of the fintech sector as well as the continual adoption of new technologies by incumbent FS firms. For example, in a recent survey, 90% of financial institutions reported they were using predictive AI for fraud prevention or back-office operations.[44]

The UK has historically led the world in fintech. The Kalifa Review identified the key drivers for the UK's strength in fintech, including: significant capital investment; high concentration of financial and technical capabilities; strong regulatory framework; significant demand from corporates, SMEs, and consumers; and high rate of digital adoption.[45] The UK ranks second globally for investment in fintech, with $12.5 billion invested in 2022.[46] We have burgeoning fintech clusters across the country, including Belfast, Birmingham, Cardiff, Edinburgh, and Manchester. Labour recognises the benefits the sector can bring for consumers through delivering innovative products, with 71% of consumers utilising at least one fintech company.[47]

However, we are in danger of slipping behind when it comes to innovation in FS. Paris, for example, is emerging as a competing fintech capital in Europe driven by President Macron's 'Choose France' business campaign.[48] Our ground-breaking innovations in Open Banking and the regulatory sandbox have been copied by many jurisdictions. Our Consumer Credit Act is failing consumers and stifling innovation. It requires updating to provide an outcomes-based approach which is fit for the digital age.

Now is the time to act. We must adopt a coordinated strategy to embrace new technology, enable a pro-innovation regulatory framework, and create the right conditions to support innovation and growth in the FS sector. The first steps of Labour's strategy are:

Set international standards for the use of AI in financial services

The development of artificial intelligence will be profound for the future of financial services in the UK, and a key source of innovation in the sector. There is a global race to be the country of choice for the growth of AI, which the UK, with our consolidated expertise and strong reputation for regulation, is well placed to lead. However, consumer protection must come first when regulating new technology. Labour is currently developing its AI strategy to lay out how we will set clear standards for AI safety, and adopt an agile approach to regulation so that the technology can be utilised by FS firms and other organisations to boost growth in every part of the economy.

Deliver the next phase of Open Banking to unlock the potential for increased competition in retail payments

Open Banking has driven competition in payments, improved access to credit, and given customers more ownership of their data. Now there is a need to build upon its early successes to deliver new use cases for SMEs and consumers. Labour supports the efforts of the Joint Regulatory Oversight Committee (JROC) to lay out the roadmap for the next phase of Open Banking and ensure appropriate consumer protections are in place. For example, Variable Recurring Payments could give consumers control of their recurring payments, eliminating penalties for failed direct debits which millions of people with variable income are at risk of incurring. Labour supports the JROC's work to define the next phase of Open Banking including laying out the long-term regulatory framework, determining the future oversight entity, and establishing an economically sustainable ecosystem.

Embrace the potential of Open Finance to improve financial wellbeing

Open Finance can build on the early successes of Open Banking by expanding the system to consolidate data from mortgages, pensions, insurance, and more. Labour recognises the potential for Open Finance to improve financial inclusion, support household saving and investment, and create a new pipeline of data to spur innovation, including personalised solutions for customers. The Data Protection and Digital Information Bill will enable the government to provide the regulatory foundation for the future Open Finance infrastructure. A Labour government will work with regulators and industry to develop the roadmap for Open Finance to prove its value and fulfil its potential to improve individuals' financial wellbeing.

Advance on-going work to create a UK central bank digital currency

Labour recognises the growing case for a state-backed digital pound to protect the integrity and sovereignty of the Bank of England, and the UK's financial and monetary system. Labour fully supports the Bank of England's work in this area, and wants to ensure that issues such as threats to privacy, financial inclusion and stability are effectively mitigated in the design of a central bank digital currency.

Make the UK a global hub for securities tokenisation

Tokenisation, which UK Finance defines as "the digital representation of financial assets using distributed ledger technology,"[49] presents a significant new opportunity for the UK. Citi Group estimates tokenised financial assets could be worth nearly $4 trillion globally by 2030.[50] Embracing tokenisation could increase liquidity, provide access to new asset classes and fractionalised assets, and strengthen risk management (by reducing counterparty risks and other operational risks).

A future Labour government will therefore look to make the UK a global leader in tokenisation by advancing work to clarify the law around tokenisation, and working with regulators to establish a proportionate, outcomes-based regulatory regime to oversee the technology. Labour will advance the initial progress to introduce the financial market infrastructure regulatory sandboxes to work out the regulatory bottlenecks for tokenisation and will explore the possibility of a pilot issuance of tokenised gilts via the Debt Management Office to test the impact of the technology and create the demand for tokenised assets. A Labour government will also look to develop partnerships with other financial centres to establish interoperable standards and enable trade of tokenised assets across borders.

Establish a regulatory sandbox to test financial products to reach underserved communities

A Labour government will ask the FCA and PSR to evaluate the potential to stand up a new regulatory sandbox to encourage development of innovative products to reach excluded and underserved consumers. Other jurisdictions including Ghana[51], India[52], and the United Arab Emirates[53] have stood up sandboxes with a particular focus on financial inclusion to deliver better outcomes for consumers. Labour will direct the regulators to also explore a post sandbox roadmap to support participants in receiving regulatory authorisation to bring their products to market.

REINVIGORATE OUR CAPITAL MARKETS

The UK's capital markets are key to driving innovation and investment in the economy. However, despite having one of the deepest savings pools and the most developed capital markets in the world, there has been a sustained reduction in investment in UK markets, including a reduction in the capital available to British businesses seeking to scale-up.

This has resulted in undervalued stocks and a lack of liquidity which has driven some companies to de-list from London and many newer companies to list abroad. The total number of London listed companies has dropped by 40% since 2008.[54] In 2023 alone, around 30 firms with market capitalisations of £100 million or more delisted from the London Stock Exchange or began the process to do so.[55] And more than 5,000 UK growth companies have been acquired by overseas buyers in the last decade.[56]

The de-equitisation of the UK capital markets has been partly driven by a decline in institutional investment in UK equities over the last two decades. In 2000, UK pension funds and insurers held 39% of shares listed on the London Stock Exchange; in 2020 they held just 4%.[57] In the US, pension schemes hold 50% of their assets in equities, compared to 27% in the UK.[58] A single investment of £300 million by the Canadian Pension Plan into a UK company exceeded the total amount of all UK pension investment in private equity and growth capital in the same year.[59]

These changes have multiple causes, including accounting standards, regulation, tax treatment, and an emphasis on cost rather than value. The closure of defined benefit schemes to new members has shifted their risk profile to focus on guaranteed long-term cashflow rather than growth investments.

But the result is that investment in UK companies has suffered, and UK pension savers are missing out on higher long-term returns from growth assets.

New Financial's analysis of international pension fund performance found UK pension funds delivered an average annual return of 6.2% compared to 7.6% in Netherlands and 7.5% in Australia.[60] The Capital Markets Industry Taskforce estimates that increasing UK pension fund investments in UK assets from 5-6% to the 2007 level of 25% could deliver over £900 billion additional capital for the UK economy.[61]

In addition, participation by retail investors in UK public equity markets remains well below comparable markets. The UK lacks a pro-equity culture with only 11% retail direct ownership of stocks and shares, compared to Sweden with 22% and the US at 16%.[62] New Financial research estimates that an additional £740 billion could flow into the UK economy if households invested a quarter of their savings in shares and funds.

Recent reviews including Lord Hill's Listings Review, Mark Austin's Secondary Capital Raising Review, the Investment Research Review by Rachel Kent, the Digitisation Taskforce chaired by Sir Douglas Flint, and the Accelerated Settlement Taskforce chaired by Charlie Geffen have identified a number of important reforms to address the problems with the UK's capital markets. A Labour government will evaluate the progress made in adopting the recommendations from each of these reviews to deliver the intended outcomes.

Labour is undertaking further work to assess additional policy required to increase investment by institutional and individual investors in UK capital markets, and welcomes the opportunity to continue to engage with industry in shaping policy ideas. The below policies represent a starting point, and Labour will further articulate its vision on capital markets policy throughout 2024. Labour is committed to strengthening our capital markets through the following:

Undertake an in-government pensions and retirement savings review

In government, Labour will review the current state of the pensions and retirement savings landscape following the reforms of the early 2000s and the welcome introduction of auto-enrolment in 2012 to evaluate whether the current framework will deliver sustainable retirement incomes for individuals. This will mean working with industry and consumer groups to ensure savers are getting the best possible returns, and to identify and tackle the barriers to pension schemes investing more into UK productive assets – including cultural and regulation-induced risk aversion. The review will look across the ecosystem – at all types of pensions and retirement savings plans (defined benefit, defined contribution, and public sector schemes including LGPS), at corporate sponsors, at asset managers, and at VCs and private equity, and set out proposals to bring about an approach that will benefit both UK PLC and UK retirees.

Enable greater consolidation across all pension and retirement saving schemes

This will enable schemes to have access, expertise, and risk profile to increase their investments in long-term illiquid assets and therefore deliver higher returns for savers. In particular:

- For defined contribution (DC) schemes, Labour will give The Pensions Regulator (TPR) new powers to bring about consolidation where schemes fail to offer sufficient value for their members, and will ask TPR to provide explicit guidance around fund and strategy suitability, and their expectation of a default cohort investment approach. Labour will keep the minimum thresholds for scheme performance under review to ensure continued improvement in returns where possible.

- For LGPS, a Labour government will evaluate different models for pooling, including increasing in-house fund management capacity at the pool level, to deliver better returns for savers and increase investment in productive assets.

Empower the British Business Bank with a more ambitious remit

A future Labour government will look to empower the BBB with a more ambitious and targeted remit. This will include extending the review period for the BBB's business plan to enable the bank to plan for a longer time horizon, to be more ambitious in setting strategy and KPIs, and provide certainty to investors and firms. It will also include examining the potential for securitisation of ENABLE programmes to support more lending at scale by challenger banks and small business lenders to facilitate SME growth. Labour will also instruct the BBB to offer match funding for Spinout Seed Funds to provide translational funding to support bridging the gap from spinout to commercialisation.

Establish a British 'Tibi' scheme

Modelled on the French 'Tibi' scheme, Labour will set up an opt-in scheme for DC funds to invest a proportion of their assets into UK growth assets – split between venture capital, small cap growth equity, and infrastructure investment. First proposed as part of Labour's Start-Up Review, Labour will set up an oversight committee to manage the scheme comprised of private investors who will be responsible for drawing up an accredited list of venture capital funds and UK small cap funds, supported by British Patient Capital. The participating institutional investors will be asked to allocate a small proportion of their funds to the scheme and will have full discretion over which funds from the accredited list that they invest in.

Labour will also use the scheme to address some of the broader barriers to seeing more DC fund investment into these assets including:

- Bring together VCs and institutional investors to workshop innovative DC-centric fee arrangements.

- Convene DC funds with infrastructure investors to explore how to improve the credibility of policy stability, which is a key barrier to higher levels of UK investment in infrastructure.

This scheme will focus specifically on investing in VC and small cap equity in the UK.

Encourage investment of unlocked capital from Solvency UK into British infrastructure and green industries

The adoption of Solvency UK reforms will unlock up to £100 billion in capital from insurers to invest in productive assets.[63] Labour fully supports the changes and recognises that reform is essential to unlock investment. A Labour government will work with the PRA to ensure that the vision for Solvency UK reforms is delivered in practice. However, realising the full benefits from Solvency UK reforms requires addressing the critical blockers to investment.
For insurers, the current demand for UK assets which align to their risk-return profile, and meet the requirements for Solvency UK, far exceeds the supply. To address this, Labour has set out its plans for removing barriers to facilitate the largest upgrade to our national transmission infrastructure in a generation. Labour has also committed to reforms to planning that will remove a major barrier to infrastructure development, including by giving communities more certainty on how they will benefit from hosting clean energy infrastructure.

Alongside these planning and grid reforms, Labour has convened the British Infrastructure Council to act as an enabler to increase the supply of infrastructure projects for institutional investors. The Council brings together leading industry figures in infrastructure delivery and financing to help identify barriers and explore how to incentivise and maximise infrastructure investment.

Support increased retail participation in capital markets

Labour will look to deliver a modern 'Tell Sid' campaign for retail ownership to highlight the value of British people supporting British businesses. Labour will also look to simplify the Individual Savings Accounts (ISA) landscape to make it as easy as possible for people to feel the benefits of saving and investing their money, including through increased utilisation of stocks and shares ISAs.

CONCLUSION

The defining economic mission of the next Labour government will be to revive strong economic growth, with rising living standards and productivity in every part of the United Kingdom. That is the benchmark we will be judged against. But it is a mission which cannot be delivered by government alone. It will rest on partnership.

Britain's financial services lead the world. We have been privileged to meet and work with many people with talent, commitment and vision for their business and for their country. Every day, the sector gives the spark that lets new, homegrown businesses start and scale up; provides the financial security on which ordinary families rely; and drives economic growth.

But too often, that success has been in spite, not because, of the actions of the government which has lacked commitment to its success and stoked instability.

In a more turbulent world and a more competitive environment, this is no time to rest on our laurels. And as we look ahead to the daunting economic challenges of the decades to come, we will rely on a thriving sector which plays its part in a process of national economic renewal.

A strong, innovative financial sector built Britain's economic success in past centuries. The same can be true in the future – but only if government ensures a competitive regulatory environment, removes barriers to success, and works with business to meet those challenges.

None of the ambitions of the next Labour government can be achieved without a strong financial sector playing its part in reviving investment. This review articulates our policy priorities to expand the regional footprint of the sector, bolster our international competitiveness, strengthen financial inclusion, increase investment in capital markets, embrace the future of fintech, and become a world leader in sustainable finance.

We are looking forward to working together to unlock the potential found all across Britain; to offer working people the security they deserve, to drive investment in proud industries in all our towns and cities, to expand opportunities and reward ambition.

It's time we took pride in what Britain does best. That is what this report is all about.

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