Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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By email: FSGrowthStrategy@hmtreasury.gov.uk

Dear HM Treasury,

Financial Services Consumer Panel response to the Financial Services Growth & Competitiveness Strategy Call for Evidence

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individuals and small businesses[1] in the development of policy and regulation of financial services in the UK.

Our focus is predominantly on the work of the FCA, but due to the critical importance of this strategy to the Panel's work, the Panel welcomes the opportunity to respond to HMT's Financial Services Growth & Competitiveness Strategy Call for Evidence.

The Role of Consumers in Driving Economic Growth

The Panel are responding to this call for evidence because we support the objective of the UK having a thriving and sustainable economy that delivers benefits for all stakeholders, including consumers.

However, we also believe strongly that the protection, interests and contribution of consumers are critically important considerations in this discussion. It is clear from government (and other) data that consumers are a key driver of sustainable economic growth, with household spending being the largest element of spend across the UK economy; 61% of the total spend in 2023[2].

[1] Our remit regarding small businesses as consumers of financial services mirrors the FCA's perimeter which includes businesses that have an annual turn over of below £6.5m, an annual balance sheet total smaller than £5m and fewer than 50 employees. We focus on SMEs' experiences as consumers of financial services.
[2] Components of GDP: Key Economic Indicators - House of Commons Library

In addition to household consumers, Small and Medium Sized Enterprises (SMEs) are consumers of financial services, and they also play a vital role in fuelling economic growth. There are 5.5 million small or medium-sized businesses in the UK in 2024[3], representing over 99.9% of the UK's business population and accounting for 16.7 million jobs (61% of total UK employment).[4]

Accordingly, confident consumers do and, under the right circumstances, will continue to power growth in the UK economy through engagement with the financial services sector. This will be even more true if those consumers who are vulnerable, disadvantaged or who may have been left behind during previous economic cycles can participate in the economy, factoring in the possibilities from both a regional[5] and financial inclusion[6] perspective.

The Role of Consumers in the 10-Year Growth Strategy

The Panel is supportive of the development of a 10-year growth strategy for financial services which delivers benefits for consumers. Given the potential for significant consumer contribution to this growth, the Panel believes there should be much greater recognition of the extremely important role that consumers will play.

Therefore, the Panel believes that, in order to achieve its growth objective, the government should:

- frame the strategy with consumers as a core element of the overarching conceptual structure,
- analyse the impact each strategic decision will have on consumers' finances and therefore their confidence, recognising that actions that potentially reduce households' and small businesses' budgets are likely to be counterproductive to a growing economy, and
- use the opportunity of a 10-year plan to establish a bold vision to ensure that consumers are well informed, empowered and have access to the appropriate support, advice or guidance to make good financial decisions in both positive and negative scenarios.

In particular, the Panel believes the government should continue to devote significant efforts to include within its strategy all consumers – especially those who wish to participate in the UK economy, but who are

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[3] https://commonslibrary.parliament.uk/research-briefings/sn06152/#:~:text=There%20were%205.5%20million%20private,population%20has%20increased%20by%2059%25
[4] https://www.gov.uk/government/statistics/business-population-estimates-2023/business-population-estimates-for-the-uk-and-regions-2023-statistical-release#:~:text=UK%20private%20sector.-,At%20the%20start%20of%202023%3A,%C2%A30.8%20trillion%20(17%25)
[5] https://bartlett-review.ucl.ac.uk/left-behind-places/index.html
[6] https://www.sciencedirect.com/science/article/pii/S0264999324000634

currently less able to do so. In this regard, the Panel welcomes the recent announcement of the Financial Inclusion Committee[7], which includes a representative from the FCA, and which will develop, coordinate and implement interventions to support financial inclusion in the UK, and will advise the UK Government on the development of its financial inclusion strategy. The Panel looks forward to working with the FCA in support of this important work.

The Potential Impact of the Financial Services Growth and Competitiveness Strategy on Consumers

The Panel's vision for financial services is that financial markets work well for consumers – both individuals and small businesses – and consumer harm does not occur.

In order to accomplish this within the context of financial services, the Panel expects that:

- Consumer protection - which is not a barrier to, but a pre-requisite for growth, and which is the foundation for consumers to actively engage in the market and thereby for markets to thrive - should and will remain a primary statutory objective of the FCA. Consumer protection should not be shaped or diluted by the secondary objective of international competitiveness and growth.
- Increased risks of financial harm, as a result of consumers being encouraged to take more risk or from firm failures, should be met with commensurate protections. If consumers suffer financial shocks, economic growth is also likely to suffer.
- Products and services that exhibit the same regulatory risks to consumers should also result in the same regulatory outcomes. If there is inconsistency, consumers will find it very difficult to make well-informed, risk-based, decisions.
- Consumers should have free and easy access to an effective remediation and redress system, with the option of a private right of action where this system fails them.
- The redress framework considers the full financial impact on consumers alongside the number of consumers impacted. Currently there is a failure to recognise that redress limits or thresholds have a significant impact on some consumers, affecting the economy in terms of consumer confidence and therefore growth.
- Combating fraud and scams needs to be a priority, with a focus on stopping them, not slowing their growth. Fraud and scams cause financial and psychological harm to consumers. It is important that the drive for growth and international competitiveness does not

[7] https://www.gov.uk/government/publications/financial-inclusion-committee/financial-inclusion-commitee-terms-of-reference

enable new frauds and scams or remove focus from preventing such harms.

- Issues created by the Regulatory Perimeter[8] should not be allowed to impact effective consumer protection. The FCA and HMT need to develop an agile process to solve perimeter issues without primary legislation. As an example, the Panel has highlighted the issues and risks to consumers arising from the current 'sophisticated investor' definition and rules; however, this is not currently within the FCA's reach.
- Any reform of pension funds and governance should prioritise the interests, risk-tolerance, value, and benefits of pension fund members before consideration of the benefits that successful firms (including small businesses) bring both to pension investment returns and to the overall economy.
- Technology should be designed with consumers in mind, prioritising transparency, fairness, and the ethical use of data, paying particular attention to the use of algorithms and consumer data, and always ensuring that effective governance is in place.
- The FCA and government should take steps to tackle the dis/misinformation which consumers encounter. This should be replaced by verifiable information sources that are fact-based, accessible, and easily understood by consumers. This will help increase consumer trust.
- The FCA and government should assess and work to resolve issues facing small businesses, considering such themes as the risks they face, their costs of doing business, the availability of credit, access to and ability to deposit cash, and their overall experience of financial services.
- The FCA should continue to demonstrate innovative thinking in its consumer outreach, such as the approaches recently taken in relation to the British Steel Pension Scheme intervention and the InvestSmart and ScamSmart campaigns, to engage with and capture the attention of the widest consumer audience possible.
- The government and financial services regulators should engage collaboratively with consumers on the journey to increase the UK's economic growth. UK consumers are ready to support causes they believe in, as evidenced by the dramatic increase in interest in ESG[9], but require active engagement to do so.

If adhered to, the objectives of consumer protection, market integrity, and competition all contribute to a growing economy, as they provide a

[8] Our perimeter report | FCA
[9] https://hansard.parliament.uk/Commons/2023-10-23/debates/123A9CCA-D745-499B-95B2-ECA26808E842/EnvironmentalSocialAndGovernanceDevelopments#:~:text=The%20number%20of%20ESG%20assets,assets%20held%20in%20the%20UK

level of confidence to consumers that their assets will be there when they need them, the markets will return value commensurate with risk, and the consumer will be dealt with fairly by their financial services providers. If, however, regulatory expectations are not enforced, the financial sector and the economy are likely to suffer the consequences of lower consumer engagement.

In addition, to the comments above, the Panel has selectively answered some of the questions posed in the call for evidence; please see Annex 1 below for these responses.

Yours sincerely,

Helen Charlton
Chair, Financial Services Consumer Panel

Annex 1 – responses to select questions

Stakeholder information

Question 1: Which of the following statements best describes you as an individual or as an organisation:

Other – We are an independent statutory body representing the interests of individuals and small businesses.

Objectives and Approach

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

Whilst the Panel agrees with the proposed objectives, we believe that, given the potential for significant consumer contribution to growth in the sector, there should be much greater recognition of the extremely important role that consumers play. Therefore, the Panel believes that government should frame the strategy with consumers as a core element of the overarching conceptual structure.

We would like the government to ensure that, in the context of expanding export markets, consumers have current and relevant information relating to geopolitical issues associated with high-risk countries and how that may impact them.

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?

The Panel consider the following to be the most important trends or changes likely to affect the financial services industry over the next 10 years:

1. In the short term at least, the ongoing socio-economic effects of the Covid pandemic, the energy crisis and cost of living challenges mean that consumers may be less willing to spend/less willing to take risks.
2. Demographic changes mean that the financial services sector must be prepared for 'baby boomers' exiting the labour market and drawing down their pensions.

3. The average age of the first-time house buyer, who purchases without help from family will continue to rise, resulting in mortgage payments continuing through to retirement and perhaps beyond. There is a need to ensure that the market operates fairly for these consumers.

4. According to the FCA's recent Financial Lives survey[10], renters are one of the most likely groups to be experiencing financial difficulties. Over 25% of these individuals had missed a bill payment or credit commitment in the prior 6 months. Whilst the government is taking steps to reform the rental sector and to increase housing supply, such challenges may continue for many renters; again, there is a need to ensure that the market operates fairly for these consumers.

5. Increasing digitisation in all aspects of daily life mean that financial services firms will expect consumers to rely more on digital channels and devices to interact with them. This runs the risk of excluding people who are less able to use and/or cannot afford smart phones or other devices, internet access or accompanying data bundles. Those excluded in this manner run the risk of being more susceptible to harm; for example, relying on borrowing from loan sharks.

6. The rapid pace of change in technology (including AI) and exponential growth in data-including consumers' personal data-will continue and in all likelihood increase. This will continue to influence and shape the provision of financial services. There is likely to be increasing crossover between telecommunications and financial services as telecommunications companies leverage their presence in consumers' online experiences/lives into financial services. This will require regulators across different sectors (financial services, information/data and telecommunications), and legislators, to be agile and adaptive in order to anticipate and mitigate consumer harms.

7. The Digital Pound may become a reality[11]. The Panel has engaged with regulators on their early thinking on this topic, responding to the Bank of England's 2023 Consultation Paper.[12]

8. The number of bank and building society branches is likely to reduce further, with the move to more banking hubs, as firms justify closures by citing reduced footfall. There is need to ensure that these hubs can deal with all the occasional transactions typically done at a bank branch such as a change of trustee/signatory on a charity bank account or dealing with the death of a customer.

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[10] Improving picture for personal finances, but many still struggling | FCA

[11] https://www.bankofengland.co.uk/the-digital-pound

[12] 20230630_final_fcsp_response_-_hmt_and_boe_consultation_on_the_digital_pound.pdf

9. There has recently been a number of mergers and acquisitions in financial services e.g. Barclays and Tesco Bank, and Nationwide Building Society and Virgin Bank. We expect this may continue, which could ultimately affect the choices that consumers will have.

10. There will be heightened risk of extreme weather events due to climate change, with the result that some consumers may be unprotected against the risk of flood, storms and/or extreme heat, with people in poverty more affected by climate change and nature loss than those who are not[13]. In 10 years' time, the sector will be only 5 years away from cessation of the Flood Re scheme. Meanwhile, the transition to Net Zero by 2050 will present opportunities for firms to provide loans and other products/services to consumers to support energy transition measures.

11. Finally, we note that according to the FCA's Financial Lives Survey only 41% of UK adults have confidence in the UK Financial Services sector and only 36% agreed that financial firms are honest and transparent[14]. If consumers have low trust in financial services, they may be less willing to take risk.

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?

Whilst the Panel generally agrees with the policy pillars, because of the key contribution that consumers make to the economy, we believe that the role of the consumer should be added and should form the core of any strategic decision-making.

In addition, the Panel has the following comments:

Innovation and technology – The Panel believes that the use of technology can provide many benefits, including as a resource to inform and educate consumers. However, it is also clear that it can be and has been used as means to perpetrate consumer harm; the government and financial sector must constantly be alert to and take action to address this.

Technology should be designed with consumers in mind, prioritising transparency, fairness, and the ethical use of data. In particular:

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[13] https://www.thinknpc.org/resource-hub/everyones-environment-people-poverty/

[14] Financial Lives 2022: Key findings from the FCA's Financial Lives May 2022 survey

- Algorithms must be inclusive, representative, and regularly tested to avoid unreasonable barriers or discrimination, particularly for vulnerable individuals.
- Consumers must be informed about, and consent to, how their data is collected, used, and shared.
- Effective governance of data and algorithms, including the assessment of the impact on consumers, needs to be developed to further protect consumers.

Regulatory environment – the Panel notes that a strong regulatory environment that protects consumers, ensures market integrity/stability, and promotes competition in the interest of consumers is essential. We are firmly opposed to any attempts to de-prioritise or strike a balance or trade off with the growth and international competitiveness objective, which should remain secondary.

If adhered to, the objectives of consumer protection, market integrity, and competition all contribute to a growing economy, as they provide a level of confidence to consumers that their assets will be there when they need them, the markets will return value commensurate with risk, and the consumer will be dealt with fairly by their financial services providers. If, however, regulatory expectations are not enforced, the financial sector and the economy are likely to suffer the consequences of lower consumer engagement.

Regional growth – we fully support regional growth, as that will serve to include a significant number of consumers who have been left behind during previous economic cycles and are not currently able to share in the benefits of a strong UK economy.

Skills and access to talent – The Panel agrees that access to skills and talent is important and necessary. This objective should prioritise homegrown talent, and the government and the financial sector should look beyond the typical talent pool to encourage participation by under-represented populations.

International partnerships and trade - The Panel advocates for international collaboration among regulators, industry players, and experts to develop and test innovative technologies for societal benefit. The Panel believes that collaboration is essential to address barriers to innovation, including regulatory uncertainty, fragmentated market access for smaller firms and the skills gap in emerging technologies. The Panel encourages further engagement on many cross-border topics such as the passporting of credit history.

Economic crime, frauds and scams

Combating fraud and scams needs to be a priority, with a focus on stopping them. In addition, efforts relating to increasing growth and international competitiveness should include assessments and prevention measures to prevent new avenues for fraud and scams.

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

At present, competition works relatively well in most parts of the financial services sector. The Panel would observe that:

- Recent price increases and price alignment would appear to indicate certain markets are not functioning effectively for the benefit of consumers. For example, the Panel's research into car, household and travel insurance in 2024 revealed that a majority of consumers had experienced a price increase and some increases were as much as 30% or more[15].
- Product complexity often makes it difficult for consumers to compare products and benefits, making competition difficult.
- Unchecked competition can harm consumers if firms cut essential services to reduce costs to compete with other firms and/or in a drive for higher profits.
- Competition between large numbers of small firms in emerging sectors of the market, such as e-money and payment providers, often leads to firm failures, which may negatively impact consumers.

Innovation & 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?**

Supporting innovation and adoption of new technology

The Panel believes that the UK Government and the FCA have generally been supportive of the adoption of new technologies in the financial services sector; initiatives such as the FCA's Regulatory and Digital Sandboxes demonstrate a commitment to fostering an environment conducive to innovation. However, the provision of guidance that could offer clarity to both consumers and firms has lagged.

[15] FS Panel Help and Insurance final deck 070224 PUBLIC VERSION

The UK has received the highest amount of inbound fintech investment in Europe in the first half of 2024 and the second highest globally, according to Innovate Finance[16] and this is testimony to its encouraging business environment for tech start-ups, clear regulation and the technical know-how and skills that exist in the UK. To realise the potential of emerging technologies, the Panel believes the UK must continue to foster an innovation-friendly environment that considers consumer needs, supports skills development, and encourages collaboration between technology firms, financial institutions, and regulators. However, it is also acknowledged that 42% of fintech workers come from abroad. There is a need to ensure that UK communities have the right skills to compete in this growing sector - in keeping with the ambition to ensure a strong pipeline of homegrown talent under the 'Skills and access talent' pillar.

The absence of a Digital ID system in the UK presents an impediment to economic growth, particularly as the economy becomes increasingly digitised. There are several examples from advanced digitised economies such as Sweden, Singapore and India, but particularly Estonia, which has utilised a comprehensive Digital ID system to develop scalable digital ecosystems.

A Digital ID framework, supported by robust consumer and privacy protections, streamlines processes for consumers and improves the user experience. Without it, the UK faces several challenges, such as financial exclusion, which makes it harder for individuals without documentation to access banking and financial services. This limits economic participation, particularly for vulnerable populations and small businesses that could otherwise contribute to growth. A Digital ID should make it easier for businesses using emerging technologies through open banking and fintech platforms to serve consumers, and thereby for consumers to benefit from such developments.

Improvements in the financial services sector

The Panel appreciates that the FCA has committed to being a data-led regulator[17]. We believe that the continued effort to collect and employ relevant, good quality data to support effective decision-making will help to improve consumer protection.

The Panel believes that the use of technology is essential for empowering individuals and small businesses by providing them with clear, trustworthy, and accessible information to make informed financial decisions. There are many benefits associated with technology and ethically compliant use of data, including faster and more efficient

[16] https://www.innovatefinance.com/capital-and-investment/h1-2024-fintech-investment-landscape/
[17] FCA sets out plan for the year ahead | FCA

processing, and personalised services. However, this potential is accompanied by risks, such as:

- individuals being 'left behind' behind due to digital exclusion,
- 'algorithmic discrimination,' where data analysis excludes people based on characteristics (including protected characteristics) or behaviour and
- exposing consumers to risks of exploitation and scams.

The Panel believes that technology in relation to financial services must be developed with consumers in mind, and to minimise harm by ensuring the responsible collection, use, and sharing of data *with informed consumer consent*. Transparency, fairness, and the ethical use of data should be prioritised. Consumer input and insight throughout the development of systems, processes, and procedures is essential. Understanding consumer needs, experiences, behaviours and potential risks will help regulators and firms stay focused on ensuring data and systems are used fairly and provide positive consumer outcomes.

In particular:

- Algorithms should promote inclusion and reduce exclusion. The source data informing algorithms must be accurate, current, inclusive, and representative to prevent unreasonable barriers or discrimination against individuals or groups, including those in vulnerable circumstances or with protected characteristics.
- Firms should regularly test their models to ensure that products and services are inclusive and considerate of all customers, including those with vulnerable characteristics. Firms should maintain sufficient control and understanding of the data and algorithms they use, enabling them to assess and monitor their impact on and be explainable to consumers. Governance arrangements should explicitly include procedures for overseeing the use of algorithms and data to ensure firms can be held accountable by both consumers and regulators for their impact on outcomes.

Finally: small businesses play a vital role in fuelling economic growth. However, small businesses that lack digital knowledge or expertise face additional challenges to doing business and thereby contributing to economic growth. Some may need investment and/or support in appropriate digital skills and knowledge to help them access and benefit from financial products and services.

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?

Technology is advancing so rapidly that it is extremely difficult to anticipate advances in 3 years, let alone 10. However, it is clear that artificial intelligence (AI) will be at the forefront of financial services for the foreseeable future. Blockchain is also becoming far more prominent. Although it is still early days, quantum computing is likely to become a significant influence in the next 10 years.

These technologies have their benefits, but they can also carry considerable risks. The risks surrounding AI are widely shared in the public domain; the Panel has been pleased to see the FCA begin to develop its approach to AI in financial services regulation.[18]

Large amounts of funds flowing into decentralised blockchains, such as Bitcoin, may present a risk to growth, as the assets sit in the blockchain until they are either spent on goods or services, the funds are transferred to a bank account, or the money is lost due to extreme volatility.

The government and regulators must be aware of and address the risks associated with these and any other emerging technologies. This means that they too must have access to the necessary skills and talent.

Regulatory Environment

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

The Panel believes that a strong regulatory environment that protects consumers, ensures market integrity/stability, and promotes competition in the interest of consumers are absolute primary objectives, and the Panel is firmly opposed to any attempts to de-prioritise or strike a balance with these and the growth and international competitiveness objective, which should remain secondary.

If adhered to, the objectives of consumer protection, market integrity, and competition all contribute to a growing economy, as they provide a level of confidence to consumers that their assets will be there when they need them, the markets will return value commensurate with risk, and the consumer will be dealt with fairly by their financial services providers. If, however, regulatory expectations are not enforced, the financial sector and the economy are likely to suffer the consequences of lower consumer engagement.

[18] https://www.fca.org.uk/publications/corporate-documents/artificial-intelligence-ai-update-further-governments-response-ai-white-paper

The Panel has been pleased to see the FCA's focus on vulnerable consumers in its Guidance to firms[19], and its current review of the Guidance[20]. However, more work is still required to ensure that vulnerable consumers are properly served by the sector and that vulnerable consumers have the support and confidence to fully participate in financial services and the wider economy. The FCA should continue its efforts to provide good and poor practice guidance and to hold firms accountable for serving the needs of vulnerable consumers.

The boundary between what is and is not protected for small business consumers is complex and even less straightforward than for individual consumers. Small businesses may end up with an amalgam of regulated and unregulated products and be unable to distinguish between them. This can result in an unexpected lack of regulatory protection and reduced confidence in the regulatory regime. We would encourage a review into small businesses experiences of financial services including the risks they face, their costs of doing business, the availability of credit, access to and ability to deposit cash, and their overall experience of financial services.

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

The FCA and PRA play crucial roles in ensuring financial stability while supporting sustainable growth. The Panel is supportive of a regulatory framework that continues to encourage innovation while safeguarding consumer protection and financial stability. The Panel believes that regulation should empower individuals and small businesses to make informed decisions with a full understanding of the risks and rewards involved. The Panel is concerned about how reducing regulatory burdens could affect consumers, particularly in terms of redress and the availability of consumer protections. The Panel is concerned that some redress limits may be insufficient for individuals with larger investments or pensions.

The Panel warns against increasing risk in the financial system, as it could result in more firm failures and consumer harm. Firm failures create regulatory stress and can lead to redress needs in the financial services ecosystem. We advocate for stronger consumer protection measures where the risk of harm is high.

In particular, we emphasise the importance of understanding ex ante the impact of regulatory decisions on consumers, and the need to understand the implications for consumers, especially in terms of spending and confidence. Additionally, the Panel believes that it is crucial that any

[19] FG21/1: Guidance for firms on the fair treatment of vulnerable customers
[20] https://www.fca.org.uk/news/news-stories/review-firms-treatment-customers-vulnerable-circumstances

regulation is proportionate to avoid stifling smaller businesses' growth and innovation.

There is a variety of channels of communication to interact with and inform consumers to support their decision-making, including the Money and Pensions Service (MaPS) which has an important role to play in providing vital information, guidance and advice services, free at the point of use. In our response to the Discussion Paper by HMT and the FCA on the Advice Guidance Boundary Review[21], we noted that MaPS, which already has a legal remit to deliver guidance services, was not a central part of the Discussion Paper; we advocated for the FCA to use insights from MaPS to understand how they deliver a personalised journey that helps consumers to make the next steps in their decision making, which includes guiding them to regulated advice. We made a number of suggestions around enhancing MaPS' role.

There is also an abundance of less credible sources, and the government and regulators should be monitoring these for disinformation and misinformation. To further counteract this, the government and regulators should also consider using a variety of channels to educate and inform consumers about the various forms of financial / investment risks that they may encounter. As customers gain more knowledge, understanding and positive experiences, they are more likely to feel comfortable taking risks.

International Partnerships &Trade

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

The Panel advocates for international collaboration among regulators, industry players, and experts to develop and test innovative technologies for societal benefit. The Panel believes that collaboration is essential to address barriers to innovation, including regulatory uncertainty, fragmentated market access for smaller firms and skills gap in emerging technologies.

The UK could consider international collaboration for passporting credit history to foster greater financial inclusivity and mobility in an increasingly globalised world. By allowing credit histories to be recognised across borders, consumers and businesses relocating to or operating in the UK can seamlessly access financial products and services, thereby stimulating economic activity and investment. This can also reduce potential fraud from abroad. Such collaboration could reduce barriers to entry, enabling more competitive lending rates and improved financial

[21] 20240315-final-response-to-fca-consultation-paper-on-agbr.pdf

stability. Additionally, international cooperation can enhance credit data accuracy and reliability, promoting a more transparent and robust financial system. The Panel believes that embracing such a system aligns with the UK's ambition to be a global financial hub, leveraging international best practices to support sustainable economic growth and innovation. However, this must happen in a safe way with full protection of consumer data and sharing should only take place with explicit informed consent of the consumer.

Priority Growth Opportunities

Question 5.1: Do you agree with the priority opportunities that have been identified?

The Panel does not disagree with the financial services sector priority opportunities. However, it is critical to point out that each and every one of these sectors either has or will have significant touch points with or impacts on consumers. Therefore, protection of consumer interests as a primary objective must be a fundamental part of the strategy. For example:

Fintech – a large portion of the current service offer counts consumers as key customers.
Sustainable finance – whilst this is currently the domain of large companies, consumers will be the beneficiaries and have key stakes in the outcomes.
Capital markets (including retail investment) – both consumers and institutions invest in the capital markets; however, institutional investors are largely investing the assets they hold on behalf of consumers.
Insurance and reinsurance markets – both consumers and institutions are direct stakeholders in the insurance market. However, once again, institutional participants are often participating with the assets of consumers and / or focussing on consumer outcomes.
Asset management and wholesale services – as the call for evidence states, this sector manages the savings of millions of people. The sector is also likely to provide a variety of other financial services that impact individual and small business consumers.

Sustainable Finance

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? For each opportunity, please provide an indication of

the type of intervention required, for example developing guidance, or supporting the development of further capabilities.

As noted in the FCA's Financial Lives survey[22], there is significant consumer interest in sustainable products and services with 74% of consumers surveyed considering environmental issues to be important, while 79% agreed that businesses have a wider social responsibility beyond profit-making. It is therefore crucial to ensure consumers can trust the claims made by sustainable investments products in order to drive positive change.

In order to ensure a successful global sustainable finance agenda, both bilaterally and at a multilateral level, prioritisation should be given to development of a strategy that enables consumers to access and understand the information they need to make informed sustainable investment decisions. There should also be consistency in approach and application across all investment products.

In terms of climate change impacts and Net Zero transition for UK consumers, there will be heightened risk of extreme weather events due to climate change, with the result that some consumers may be unprotected against the risk of flood, storms and/or extreme heat, with people in poverty more affected by climate change and nature loss than those who are not.[23] In 10 years' time the sector will be only 5 years away from the cessation of the Flood Re scheme. The transition to Net Zero by 2050 will present opportunities for firms to provide loans and other products/services to consumers to support energy transition measures.

Capital Markets

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?
AND
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?

Access to capital resources

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[22] Financial Lives 2022 survey: Consumer investments and financial advice selected findings
[23] https://www.thinknpc.org/resource-hub/everyones-environment-people-poverty/

Access to diverse capital resources continues to be an essential component for supporting the growth and innovation of small and medium-sized enterprises.

In our recent response to the Public Offer Platform regime[24], the Panel was supportive of a regime that makes it easier and more attractive for small and medium-sized businesses to raise capital outside public markets in an effective and efficient way, helping those businesses access a broader investor base that can drive innovation, create value, and promote growth.

UK pensions market

With this in mind, the Panel is also supportive of the UK Government's plan to reform the UK pensions market, provided that this reform considers the interests of, and value, and benefits to, pension fund members. Failure to do so could put savers' money at risk and undermine their retirement goals and needs.

The Panel understands that investing in high-growth businesses, productive assets, and infrastructure projects can potentially yield higher returns compared to traditional investments. It can also help drive economic growth, create jobs, support innovation, and provide more diversified pension funds. However, we consider that such investments inherently carry a riskier profile and a higher chance of failure, which can lead to losses for pension funds and negative consequences for consumers. The Panel also notes that these assets are inherently less liquid, making them harder for pension funds to sell quickly. The Panel is supportive of proper governance and oversight of such pension funds to ensure consumers are not disadvantaged if the focus is solely on driving economic growth.

The Panel understands that pension fund size is critical when it comes to investments in large infrastructure projects (e.g., renewable energy and transportation), high-growth businesses (via private equity, venture capital, co-investments, and direct investment opportunities), and productive assets (e.g., real estate and commercial properties).

We are aware that the historical allocation of UK pension funds to high-growth businesses, infrastructure, and productive assets has been notably lower than in countries such as Canada and Australia. The Panel also recognises that while UK pension funds have historically invested in such assets, these investments have been limited due to their inaccessibility and high cost for smaller pension funds.

[24] https://www.fca.org.uk/panels/consumer-panel/publication/20241018_fscp_response-to-fca-cp-on-the-new-public-offer-platform-regime.pdf

The Panel acknowledges how Canada’s Pension Plan Investment Board and Australia’s superannuation funds, such as AustralianSuper and Aware Super, have delivered strong returns since their introduction in the 1990s. Both Canada and Australia demonstrate that large, well-managed pension funds can deliver strong returns and support economic growth through diversified investments while considering the needs of pension fund members.

For such success to be replicated in the UK, the Panel believes that mega-funds will need to meet rigorous standards to ensure they deliver for savers. Clear guidance should be provided to asset managers responsible for managing these funds. Additionally, an open competition should be administered to allow the best managers to compete for the mandate.

Financial literacy, consumer understanding and consumer/investor trust and confidence

We believe that, to grow private and public markets effectively, financial literacy and understanding of financial products are crucial for growth. The more consumers feel empowered to make informed decisions, the more likely they are to participate actively in capital markets. To encourage long-term investment, the UK government should consider improving financial education, making investment knowledge more accessible in schools and to the general public.

The Panel emphasises that investor demand is key to economic growth and relies on income, awareness of products and services, and confidence in the future. When consumers are uncertain about their future income, they are less likely to spend. The Panel also believes that economic strategy often fails to adequately prioritise consumer protection, which is essential for businesses to thrive.

To ensure that retail investors participate effectively in the UK capital markets, the Panel believes that investors need to receive sufficient and reliable information about investment opportunities, enabling them to make informed decisions and protecting them against fraudulent offers. This is particularly important, as it can be challenging for investors looking to invest in private markets and products, they are less familiar with.

The Panel believes that consumers can only take responsibility for their investments when they make an active, informed choice about whether to invest or not, but only when they:

- Understand the products and services offered and the associated risks.
- Trust that the products and services are backed by adequate, reliable, and sufficient information.

- Are confident that the advice and guidance regime helps them make informed decisions aligned with their financial needs and objectives, and that the products and services offered provide fair value.

Over time, well-informed and empowered individual and small business consumers will be much more likely to make good decisions that will give them a strong financial foundation, along with the confidence, to invest in capital markets over the long term.

Insurance & Reinsurance Markets

Question 5.10: What are the barriers to insurers and reinsurers to growing their businesses and share of international markets?
AND
Question 5.11: What are the barriers to innovation in the UK's insurance markets?

We do not address the questions of barriers to entry; however, the Panel believes that the insurance, reinsurance and captive market provision and innovation is pivotal in both supporting growth and improving UK consumer financial resilience to shocks. It is essential that markets are trusted by being subject to effective regulation and the embracing of a "putting customer needs first" culture. In addition, underwriting, pricing plus claims policy and practice must be transparent, inclusive and importantly, offer fair value to consumers throughout the lifetime of their policy plus insurer and intermediary relationship.

It is also paramount that insurers and intermediaries provide consumers with the service and support that they require, particularly in relation to making informed decisions, and especially so when the customer is vulnerable. The stark rise in premiums such as in the car insurance market can limit the growth of the sector as consumers still reeling from the financial impacts of COVID-19 and the Cost of Living crisis are not able to easily absorb premium increases of up to 40% in 2023 according to Which.[25]

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[25] https://www.which.co.uk/news/article/whats-happening-to-car-insurance-premiums-arTnq0Z643Yh