



**UK TRADE & BUSINESS
COMMISSION**

UKTBC POST-SESSION REPORT: FINANCIAL SERVICES AND FINTECH

MARCH 2023



UKTBC POST-SESSION REPORT: FINANCIAL SERVICES AND FINTECH

1. INTRODUCTION

The UK Trade and Business Commission brings together ten MPs from all nine Westminster parties and all four nations of the UK, along with business leaders and expert economists to provide independent scrutiny of the UK's trade deals and provide recommendations to the UK Government.

The UK is widely recognised for its world leading finance sector, and is home to the largest FinTech ecosystem in Europe. Both have faced significant changes and challenges since the UK left the European Union. In light of this, the sector would benefit from a stable and sustainable long term strategy from the UK Government.

The UK Trade and Business Commission took evidence on the 23rd of February 2023 covering the future of the financial services and financial innovation sector in the UK. Our witnesses offered insight into how future UK trade deals can support these industries and provide opportunities for growth and innovation.

2. SESSION WITNESSES

PANEL 1: FINANCIAL SERVICES

- 🗣️ **WILLIAM WRIGHT**, Founder and Managing Director, New Financial
- 🗣️ **SARAH HALL**, Professor of Economic Geography, University of Nottingham
- 🗣️ **JEREMY OKONJO**, Assistant Professor, University of Warwick School of Law

PANEL 2: FINTECH AND FINANCIAL INNOVATION

- 🗣️ **HARRY WEBER-BROWN**, Digital Innovation Director, TISA UK
- 🗣️ **MARTINA GARCIA**, CEO, Centre for the Study of Financial Innovation
- 🗣️ **PETER CUNNANE**, Director of International & National Initiatives, Innovate Finance

3. KEY FINDINGS

- 3.1 The UK financial sector is facing increased difficulties due to ongoing regulatory uncertainty.
- 3.2 Across the financial services sector and FinTech industry, companies are facing labour and skills shortages which are affecting their ability to remain competitive and scale-up effectively.
- 3.3 The UK Government has not been successful in producing a strategy to support and maintain the competitiveness and international leadership of the sector.
- 3.4 The financial services sector and FinTech industry are significant to UK society as a whole, playing a key role in the economy.

3.1 REGULATORY UNCERTAINTY

The UK financial services and FinTech industry have been significantly impacted by the changing relationship between the UK and Europe.

The provisions for the financial services under the EU-UK Trade Cooperation Agreement are limited and regulatory relationships are managed by unilateral equivalence decisions with individual member states. As a result, these changed circumstances have put the UK financial services in an unstable regulatory environment.

“The data from 2021 showed that indeed there was a negative impact of Brexit that led to quite a number of UK firms relocating to other European capitals as a result of the loss of passporting rights and so while of course we use rhetoric to show the confidence that the UK financial sector is indeed resilient and doing well post-Brexit, I think at the end of the day these discussions should be guided by what the data says about the aspects of the financial sector that have lost out as a result of a loss of passporting and other rights with Brexit, and that the regulators and of course the market can then have honest discussions about where, especially in the context of future divergence, where they need to concentrate on more discussions with the EU counterparts on regulatory cooperation and equivalency decisions.”
- JEREMY OKONJO, ASSISTANT PROFESSOR, UNIVERSITY OF WARWICK SCHOOL OF LAW

“I think the regulatory regime, it is complicated, there’s a lot of regulations [...] certainly following Brexit that has created a certain amount of uncertainty for fintechs in the UK.” - **HARRY WEBER-BROWN, DIGITAL INNOVATION DIRECTOR, TISA UK**

“My first suggestion would be to deliver clarity and stability on the future regulatory framework and particularly to pay attention to the relative importance of the international competitiveness of financial services and what it’s delivering domestically.” - **SARAH HALL, PROFESSOR OF ECONOMIC GEOGRAPHY, UNIVERSITY OF NOTTINGHAM**

While the EU has granted the UK two equivalence decisions for financial services since Brexit, one of these has now expired and the other has been extended to the end of 2025, when it too will expire.

Witnesses highlighted that a regulatory environment that relies on equivalence is inadequate and that seeking further equivalence decisions will not provide regulatory stability.

“Equivalence is not like a balance sheet, it’s not a snapshot in time as to whether you are or are not technically equivalent, and the day after the UK left of course we were technically equivalent. It’s about taking a view on where your framework regime is heading, and until there is more clarity on that, which may yet take a few years, any discussion on equivalence is really for the birds. To be clear, virtually all of the nearly 500 firms that we’ve identified as having moved something, somewhere, to the EU in response to Brexit would have done so even had equivalence been granted, in most cases it’s not about market access.” - **WILLIAM WRIGHT, FOUNDER AND MANAGING DIRECTOR, NEW FINANCIAL**

“So on equivalence I think it’s really important to note that it’s not something that’s negotiated, it’s something that a decision is made by each party individually and so in that sense if the UK were to set out with a strategy of seeking to obtain comprehensive equivalence from the EU I think that might be very, very difficult because it’s an EU decision to make. And the evidence so far suggests that there’s likely to be little further movement on that [...] I think also it’s important to note that equivalence isn’t the same as single market access, so it’s not permanent, it can be revoked with a month’s notice.” - **SARAH HALL, PROFESSOR OF ECONOMIC GEOGRAPHY, UNIVERSITY OF NOTTINGHAM**

In December 2022, the UK Government set out the ‘Edinburgh Reforms’ which set out regulatory changes to promote the growth of the UK’s financial sector. The impact of these changes has been overstated by the UK Government and our witnesses generally agreed that the reforms could cause more fragmentation and complication.

“There is still a political disconnect, the Government in my view is still over-playing the importance, impact, and the significance of the Edinburgh Reforms,” - **WILLIAM WRIGHT, FOUNDER AND MANAGING DIRECTOR, NEW FINANCIAL**

“We counted roughly half of these reforms are nothing to do with the EU, nothing to do with Brexit, and of the remainder that are dependent on the UK having left the EU, more than half of those the EU has already or is reviewing its own rule book. So, you end up with this idea of what we call parallel divergence, both sides are reviewing the same regulations, often for the same reasons, coming up with similar diagnoses but slightly different solutions on a different timetable. So eventually the two frameworks will diverge, but they’re diverging in roughly the same direction. But it’s still divergence, it’s still introduces fragmentation and complication.” - **WILLIAM WRIGHT, FOUNDER AND MANAGING DIRECTOR, NEW FINANCIAL**

“It’s important again to still interrogate the question, what is the policy goal. As we’ve seen the Government [...] certainly oversold what they are doing, but the other question is, is this reform a movement or other programme guided by specific needs of the financial services sector. We’ve seen the sector actually a bit nervous about the fact that they now have to entertain certain changes to the legal frameworks that they had not anticipated because in as much as they did not like certain aspects of the EU regulations, they consider those sunk costs, they had already complied with those regulations and now once again they have to contemplate new costs to new compliance requirements.” - **JEREMY OKONJO, ASSISTANT PROFESSOR, UNIVERSITY OF WARWICK SCHOOL OF LAW**

“I think because there is such a raft of regulatory domains covered within the Edinburgh Reforms and one note of caution would be to try and ensure that the sector isn’t caught in a permanent state of regulatory change or uncertainty. I think there could be costs associated with that for businesses and I think there could be reputational risks associated with that as Jeremy indicated for the UK internationally if it appeared that the UK didn’t have a clear and consistent message.” - **SARAH HALL, PROFESSOR OF ECONOMIC GEOGRAPHY, UNIVERSITY OF NOTTINGHAM**

“We need to ensure that we are not just having a bonfire, a regulatory bonfire for the sake of it or rather for political rhetorical reasons, but rather one reforms that indeed align with the interests of the market that is quite uneasy with the new compliance costs, and secondly also protecting the public interest in ensuring that we do not have a move towards deregulation that rolls back important consumer protection safeguards that came after the financial crisis.” - **JEREMY OKONJO, ASSISTANT PROFESSOR, UNIVERSITY OF WARWICK SCHOOL OF LAW**

3.2 LABOUR AND SKILLS SHORTAGES

Both the financial services sector and fintech industry are facing high vacancy rates and increased difficulty finding talent.

Witnesses highlighted that the changing nature of the required skill set in the industry and labour pool disruptions caused by Brexit has left the sector facing significant labour challenges.

“So the latest figures I’ve seen from the ONS suggests that there are around five unfilled vacancies per 100 jobs in the sector which is the highest since records began in 2001,” - **SARAH HALL, PROFESSOR OF ECONOMIC GEOGRAPHY, UNIVERSITY OF NOTTINGHAM**

“I think the main challenge for the [FinTech] sector is talent, we hear right through from our start-ups right through to our high growth members the availability of talent is an issue for them in terms of getting the right people into the right positions.” - **PETER CUNNANE, DIRECTOR OF INTERNATIONAL & NATIONAL INITIATIVES, INNOVATE FINANCE**

“I think in particular the global race for talent is only hotting up, if you can’t get the talent then that’s going to be a major constraint on any opportunity for fintechs to really grow in the UK.” - **HARRY WEBER-BROWN, DIGITAL INNOVATION DIRECTOR, TISA UK**

“The fintech economy delivers 76,000 jobs into the economy so it’s obviously huge and growing.” - **HARRY WEBER-BROWN, DIGITAL INNOVATION DIRECTOR, TISA UK**

Activity has moved out of London and taken jobs with it. Our witnesses agreed that London had been impacted by the lack of labour mobility post-Brexit.

“The UK is going to continue to be the dominant international financial centre in Europe, but perhaps less and less the dominant international financial centre for Europe and we will see more European business being conducted in Paris, Amsterdam, Frankfurt and Dublin.” - **WILLIAM WRIGHT, FOUNDER AND MANAGING DIRECTOR, NEW FINANCIAL**

“I do think that we perhaps need to move beyond looking at job relocations to try and get a measure of job creation in terms of the size of activity that’s taking place, and there in financial services the research we’ve been doing would actually tally with what you were saying vis-à-vis fashion in that Paris does seem to have done well in terms of attracting jobs. It’s worked very hard in a regulatory and political sense to do so. And there are strong job creation figures coming through from Paris at the moment. So I think rather than looking backwards it’s going to be more important to look forwards.” - **SARAH HALL, PROFESSOR OF ECONOMIC GEOGRAPHY, UNIVERSITY OF NOTTINGHAM**

“We know that particularly London’s reputation and success as an international financial centre has been built on internationally open labour markets.” - **SARAH HALL, PROFESSOR OF ECONOMIC GEOGRAPHY, UNIVERSITY OF NOTTINGHAM**

“We have a skilled pool of fintech talent already in the UK, but 42% is from overseas, you know and so we need to have an internationally open labour market to ensure that fintechs will come here.” - **HARRY WEBER-BROWN, DIGITAL INNOVATION DIRECTOR, TISA UK**

There is a clear need for a strategic approach to skills development and investment. This includes trade agreements that support the sector as well as domestic investment in skills creation.

“It is important to also invest in skills and labour because again human capital is indeed the lifeblood of the financial services sector and the Government should work with industry ensuring that people have digital skills, not just to provide labour to the sector but also as users of increasingly digitalised services.”
- **JEREMY OKONJO, ASSISTANT PROFESSOR, UNIVERSITY OF WARWICK SCHOOL OF LAW**

“We have such again real strength in academia and in innovation research there, we can predict what jobs will come through in the future and what future roles will exist in these spaces, whether it’s around quantum or AI, and I think we can begin to look at our domestic workforce there and ensure that we have a growing domestic talent pool, I think that’s also really important to account for supply for those future roles.” - **PETER CUNNANE, DIRECTOR OF INTERNATIONAL & NATIONAL INITIATIVES, INNOVATE FINANCE**

“I think there’s a mixture of a dual approach really of looking at how we continue to access overseas talent, maybe through trade agreements, visa systems, etc, but also build up the pipeline of UK trained talent.” - **HARRY WEBER-BROWN, DIGITAL INNOVATION DIRECTOR, TISA UK**

“So in many instances while the free trade agreements may include certain commitments in relation to movement of workers, in many instances they are not clear, standardised, reciprocal and so at the end of the day they are essentially an unworkable commitment because they have not been properly locked in. And in addition to that there is a need to negotiate principles governing how visa applications are submitted and processed because I think the costs of applying for visas and many of these rules including for work visas are quite complicated and expensive and undermine the ability of especially small enterprises to get workers that they probably wouldn’t easily get within the UK.” - **JEREMY OKONJO, ASSISTANT PROFESSOR, UNIVERSITY OF WARWICK SCHOOL OF LAW**

“I think anything we can do to strengthen the availability of talent both internationally, domestically, to support existing roles and the support the creation of future roles, jobs that we don’t know about yet. I think we are well-placed to do that, we just have to get the right training in place and have the right support from Government on that point.” - **PETER CUNNANE, DIRECTOR OF INTERNATIONAL & NATIONAL INITIATIVES, INNOVATE FINANCE**

3.3 MAINTAINING INTERNATIONAL COMPETITIVENESS

A key factor in maintaining the strength of the UK’s financial services is to embed FinTech within the sector and support innovation.

Witnesses highlighted the importance of the UK Government working to maintain and strengthen the competitiveness of the sector- a responsibility that is more important post-Brexit. Currently, there is no long term strategy that is providing stability and sustainability to the growth of the sector.

“I think there is an appetite for innovation but it’s not clear yet to me that it is necessarily in the right path.”
- **MARTINA GARCIA, CEO, CENTRE FOR THE STUDY OF FINANCIAL INNOVATION**

“It doesn’t matter if you are at the top of the innovation, what it matters is that you can adapt it much quicker. And that’s how you become really competitive in a sustainable way, it’s not by having a few stars on fintech but it is by embedding fintech in the wider sector.” - **MARTINA GARCIA, CEO, CENTRE FOR THE STUDY OF FINANCIAL INNOVATION**

“I mean there is no doubt that the UK was a prime mover and was a very early in this fintech and I don’t think there is any doubt that that advantage has been somehow eroded, it doesn’t mean that it is not competitive right now, but then the difference at least is less big than what it was.” - **MARTINA GARCIA, CEO, CENTRE FOR THE STUDY OF FINANCIAL INNOVATION**

“I think certainly with our exit from the European Union the UK now stands alone to fight, to maintain our global competitive edge as the major financial centre, both for fintechs and major financial services and I think it’s critical that we continually develop and innovate within the financial services sector to deliver efficiencies but also we need to make the UK a particularly attractive place to work and for companies to come here and list on our exchanges.” - **HARRY WEBER-BROWN, DIGITAL INNOVATION DIRECTOR, TISA UK**

“Providing the sort of the bed in which firms can come and safely test in the UK all the way through the maturity right through to listing with a very clear, defined growth plan and support both from the regulator and Government I think would really help retain our international competitiveness.” - **HARRY WEBER-BROWN, DIGITAL INNOVATION DIRECTOR, TISA UK**

3.4 SUPPORTING SOCIETY

Experts highlighted that more acknowledgement is needed of the economic, and therefore social impact of the financial services sector.

“One is that indeed we need to look at how finance is integrated with other related professional services, that also rely on the vibrancy and the vastness of the financial services sector and these are major professional services of course including law, accountancy, management consulting and other related fields that we need to also put into perspective when we think about the contribution that the financial services sector plays in the UK economy.” - **JEREMY OKONJO, ASSISTANT PROFESSOR, UNIVERSITY OF WARWICK SCHOOL OF LAW**

“I think we also need to think of the role that the financial services sector plays in society generally, for example on the issue of digitalisation [...] we can see that the financial services sector has been at the forefront of driving digitalisation, not just of economic but also social life and so it is important that when we think about the impact of financial services, we should also think about it in the context of its contribution not just to the economy but also to wider social life in the UK.” - **JEREMY OKONJO, ASSISTANT PROFESSOR, UNIVERSITY OF WARWICK SCHOOL OF LAW**

“The industry sometimes in this debate talks about itself in terms of itself, we’re important because we employ a lot of people, we pay a lot of tax and that’s true and it’s a hugely important sector in its own right, but it’s vitally important to think about the wider role, its underlying fundamental role in the UK economy.” - **WILLIAM WRIGHT, FOUNDER AND MANAGING DIRECTOR, NEW FINANCIAL**

“In the ongoing reforms to financial services regulations it is important for the Government to keep at the forefront that the key role of the sector is to support the UK people, and that includes the economy and society, and that means that the drive towards international competitiveness should not sacrifice the need to ensure that one consumers are well-served by the domestic sector and secondly also protected so that the safeguards put in place after the crisis should not go up in a regulatory bonfire.” - **JEREMY OKONJO, ASSISTANT PROFESSOR, UNIVERSITY OF WARWICK SCHOOL OF LAW**



The UK Trade and Business Commission is an unincorporated association facilitated by its Secretariat, Best for Britain.
The Secretariat can be contacted at secretariat@tradeandbusiness.uk or at Best for Britain Limited, International House, 24 Holborn Viaduct, EC1A 2BN
www.tradeandbusiness.uk