The Financial Inclusion Centre

Financial markets that work for society

Shedding light on finance and the financial regulators

A proposed new framework to evaluate: how well finance serves the interests of the real economy, environment, and society; and the performance of the financial regulators

January 2025

About The Financial Inclusion Centre

The Financial Inclusion Centre (FIC) is an independent, not-for-profit policy and research group (www.inclusioncentre.org.uk). FIC's mission is to promote a financial system and financial markets that work for society. FIC works at two main levels:

Promoting system level change
Research and policy development to promote sustainable, resilient, economically and socially useful financial markets that: benefit the environment; encourage responsible corporate behaviours and create a positive social impact; and efficiently allocate long term financial resources to the real economy.

Ensuring households' core financial services needs are met
Promoting fair and inclusive, efficient and competitive, well-governed and accountable, properly regulated financial markets and services that meet households' core financial needs. We do this by: undertaking research into the causes of market failure in the sector; formulating policies to address that market failure; developing alternative solutions where the market cannot deliver; and campaigning for market reform. We focus on: households which are excluded or face discrimination from financial markets, and those which are underserved by financial markets and services; and detriment at the intersection of finance, technology, and data.

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Report structure

Summary

Introduction and background

The Government regards the City of London and wider finance sector[1] as the crown jewel of the UK economy[2]. The sector sits at the heart of Government's plans to promote economic growth across the UK. It is expected to play a major role both in terms of a direct contribution to the economy and as an enabler of the real economy, the green transition, and inclusion. At the Financial Inclusion Centre we fully recognise the need for the UK to have a successful financial sector. Indeed, a core part of our mission is to promote a financial system and markets that work for the real economy, environment, and society.[3]

There are competing visions of success for the finance sector. One vision, promoted by industry trade bodies, emphasises the size and revenue-generating potential of the City and wider financial sector, and involves greater financialisation of the UK economy and society. With this vision, the way to deliver 'competitiveness and growth' is via: market deregulation and liberalisation; 'rediscovering risk taking'; and the financialisation of social infrastructure and assets with private finance supported by corporate welfare and 'de-risking'.[4]

The other vision, promoted by civil society, would judge the City on how well it meets the needs of the real economy, environment, and society not the size of the finance sector per se. This vision supported by robust policy and regulation emphasises economic sustainability, the extent to which the City stops financing activities that damage the environment, how much finance contributes to efforts to promote equality and inclusion, and regional economic success.

There is a worrying emphasis in government policy on financial sector growth and competitiveness. What's good for the City isn't necessarily good for the real economy, the environment, and society. There is evidence raising concerns that, beyond a certain point, financial sector growth can actually harm the economy.[5] History shows us what happens when finance is allowed to become too dominant.[6] Indeed, financialisation can exacerbate inequalities.

We argue that if the Government wants to put the City at the centre of national economic strategy, this needs to be accompanied by a far more balanced view, and clearer definition, of what a successful finance sector looks like. We also argue for a new objective, comprehensive and balanced performance framework and metrics to assess the economic, environmental, and social utility of finance. This is needed to inform government and regulatory policy and allow Parliament and civil society to evaluate the Government's strategy for the finance sector and the effectiveness of the main financial regulators in making finance work in our interests.

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[1] The 'City' is, of course, not the same as the wider financial services industry. But, we use the terms interchangeably throughout the report.
[2] See post by The Economic Secretary to the Treasury and City Minister (1) Post | Feed | LinkedIn
[3] This includes households/ consumers and more generally how well finance supports social policy objectives such as financial inclusion.
[4] Where private finance institutions expect third parties such as the state or non-profit sector agencies to underwrite risks allowing private finance to receive the financial rewards. This is known as socialising the risks, privatising the rewards.
[5] See for example: Too Much Finance?; by Jean-Louis Arcand, Enrico Berkes and Ugo Panizza; IMF Working Paper 12/161; June 1, 2012 and Reassessing the impact of finance on growth, July 2012
[6] Full article: Capitalism divided? London, financialisation and the UK's spatially unbalanced economy

We don't actually know how well the finance sector works

The key message of this report is that, even though the City will be given an even more central role in the nation's economic future, it is not actually possible to tell how well finance serves the interests of the real economy, environment, and society.

How did we reach this conclusion? We began by defining a set of high-level outcomes or tests that should be met if finance was working for the real economy, environment, and households.[7] We then interviewed a group of experts and refined these outcomes. Following this, we identified a set of performance metrics that would tell us whether these outcomes were being met and allow for monitoring of progress against the outcomes. We then researched the available data sources, focusing on the financial regulators, to determine whether it is possible to judge how well finance is working in our interests measured against those outcomes. We concluded that financial regulators do not use a comprehensive performance framework to evaluate the finance sector. Furthermore, while there is a significant amount of data out there, it is not coordinated in a way that allows for a meaningful, objective evaluation of the finance sector. There are also major gaps in the data.

The City trade bodies and consultants publish regular reports, widely referenced by government and media, extolling the sector's positive contribution to the economy, society, and how 'green' the City is becoming.[8] Those partial narratives tell us little about the actual economic, environmental, and social *utility* of finance.[9] These play down the harmful and negative impacts of finance. The experts we interviewed for this report shared our concerns that there is too much emphasis on measuring how well the regulators serve the industry they regulate, and that we lack a proper performance framework to evaluate the impact of finance and to hold regulators to account (see Annex I for a summary of the expert views).

Financial regulators publish limited or sporadic analysis (see below). Understandably, consumer groups and comparative information providers tend to focus on retail financial services. Civil society organisations do produce some excellent analyses of the impact of finance on the economy and environment.[10] Again these have been mostly one-off analyses. Overall, civil society and academics have not had the resources to produce regular objective analyses to counter the regular reports published by the finance sector, trade bodies and consultants.

The Financial Inclusion Centre did produce 'An Economic and Social Audit of the City' in 2017.[11] It was a more comprehensive and balanced assessment of the value that finance contributes to the economy and society. It also measured the harm caused by the sector's activities including crisis-related costs, misselling costs, value extraction, short termism and misallocation of resources. But that audit hasn't been updated and it had a more limited remit than what we are proposing now. For example, it wasn't able to cover the climate harm financed by the City in any detail.[12]

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[7] For example, for the consumer category the preliminary outcomes were based on the established consumer principles of access, choice, value for money, redress and so on.

[8] See for example: State of the sector | annual review of UK financial services 2022 (theglobalcity.uk)

[9] Utility here refers to how well financial markets serve the interest of the real economy, environment, and society. There has been much justified criticism that a great deal of activity in the financial sector serves other financial activities rather than the economic, environmental, and society's interests.

[10] See, for example: How has bank lending fared since the crisis? and The finance curse: how the outsized power of the City of London makes Britain poorer | Financial sector | The Guardian

[11] An Economic and Social Audit of the City | The Financial Inclusion Centre

[12] We did address this in a later report called Time for Action: Greening the Financial System which examined how much the City continues to finance climate damaging activities. See: Time for Action – Greening the Financial System | The Financial Inclusion Centre

We do not know how effective financial regulators are at making finance work

Critical to a successful finance sector are effective financial regulators. The Financial Inclusion Centre said in its submission to the House of Lords Industry and Regulators Committee Inquiry into the accountability of UK regulators that "*regulators should be judged on how well they make the industries they regulate serve the interests of the real economy, environment and society, not on how well they serve the interests of regulated industries*".[13] Therein lies the problem. By definition, the absence of a balanced, comprehensive performance framework to judge finance means we can only have a limited understanding of how well the financial regulators are doing.

In addition to their primary statutory objectives, the regulators now have a secondary objective to facilitate the medium-to-long term growth and international competitiveness of the UK economy and, in particular, the UK financial sector. This secondary objective risks becoming a *de facto* primary objective and compromising regulatory independence.[14] We have seen a programme of deregulation or deregulation being considered in key areas of financial markets and services. The financial regulators have been required to develop and produce a number of operating service metrics to demonstrate how well they are supporting the growth and competitiveness objective.[15]

Operating service metrics can tell us how well regulators are working for the firms they regulate. But these metrics tell us little about how effective financial regulators are at ensuring those markets work in our interests. To be fair, the regulators do produce some information relating to their statutory objectives. The Financial Conduct Authority (FCA) is working to enhance topline outcomes and metrics to track progress against the consumer outcomes of fair value, suitability and treatment, confidence, and access.[16] However, many of these metrics rely on self-reporting by consumers so they are of limited use. These metrics do not allow independent experts to track and compare movements in the cost of finance, financial product costs and charges, or represent the regulator's expert assessment of the utility of and value for money provided by retail financial services. The regulators' approach falls well short of an objective, comprehensive assessment of the risks and harms created by finance and the wider economic, environmental, and social utility of finance to balance the reports produced by City trade bodies and consultants.

A new performance framework and metrics to evaluate the financial sector

In addition to the secondary growth and competitiveness for regulators, government is also developing a specific growth and competitiveness strategy for the financial sector.[17] It will be very difficult to tell whether these major strategic initiatives are effective without a comprehensive performance framework that allows us to assess how well finance is serving our interests.

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[13] Who watches the watchdogs? Improving the performance, independence and accountability of UK regulators

[14] Indeed, the Prime Minister has recently written to the main sectoral regulators, including financial regulators, setting out the need for the regulatory environment to become 'more pro-growth and pro-investment. Starmer asks UK regulators for ideas to boost growth - BBC News

[15] The FCA has produced 51 operating service metrics. FCA operating service metrics 2023/24 | FCA

[16] Consumer topline outcomes and metrics | FCA

[17] Invest 2035: the UK's modern industrial strategy - GOV.UK Financial_Services_Growth___Competitveness_Strategy_-_Call_for_Evidence_.pdf

In this new report, we are proposing a new performance framework to allow stakeholders to measure how well finance serves the interests of:

- The real economy and businesses with a focus on SMEs and microbusinesses, regional and local economies
- Environmental and social policy goals
- Society (consumers/households)

We have developed a detailed set of performance outcomes and metrics to measure how well finance meets the needs of those categories of interest. To reiterate, finance is meant to be a *service* industry in that it is supposed to serve the needs and interests of the real economy, environment, and society and certainly not harm those interests. Specific outcomes and metrics are critical as they tie the performance of the finance sector to those interests. Data on contribution to GDP or tax-take, or numbers employed tell us nothing about how well finance is serving our needs.

In contrast, the performance framework we propose in the report would enable the City to be observed and assessed from *our* perspective. In doing so, it would also enable the financial regulators to be judged from *our* perspective.

This new framework, with outcomes and metrics, is set out in the body of the report with further details in Annex II including where the necessary data to populate the performance framework might be obtained.

The data to populate this new framework would consist of:

- Data and information already produced by the regulators
- Additional data and information regulators *could* and *should* produce to improve reporting and accountability with regards to their *existing* statutory objectives. We note that regulators are now under pressure to report additional performance information in relation to the new secondary growth and competitiveness objective – they should also be required to enhance reporting from the perspective of the environment, consumers, and businesses. If regulators don't have the data and evidence, we would suggest they should start gathering it.
- Syntheses of existing relevant data and research published by other organisations.
- Newly commissioned research to fill gaps in the existing data resources.

This framework would allow civil society to produce a flagship regular State of Finance Report, which would enable a public interest audit of finance. The way the framework is structured also allows for specific reports and deep dives into how well finance serves different interests and how well each of the main finance sectors such as banking, insurance, asset management, consumer credit and so on serve those interests.

Conclusions

As mentioned, a core part of the Financial Inclusion Centre's mission is to promote a financial system and markets that work for the real economy, environment, and society. The finance sector makes a significant contribution in its own right to the UK economy. The way the sector functions is critical to long term economic sustainability, as the 2008 financial crisis demonstrated all too painfully. Financial market activities affect, for good and bad, the delivery of key public policy objectives such as the green transition, and tackling inequality, exclusion and discrimination.

The Government now intends for the City to play an even more critical role in the UK's economic future and requires the main financial regulators to promote the growth and competitiveness of the finance sector.

It is surely reasonable to presume that given the central role the City will play in the UK economy Parliament, the Government, regulators, and other key stakeholders should be in a position to evaluate whether the finance sector is working in our interests. Unfortunately, this is not the case. The key message of this report is that it is not actually possible to tell how well finance serves the interests of the real economy, environment, and society.

We lack a comprehensive, objective performance framework and metrics to provide a more holistic evaluation to counter the partial reports produced by the various industry trade bodies. Reports which highlight the contribution of the sector in terms of share of GDP and tax revenue, jobs created, or levels of financial activity tell one side of the story. Without an assessment of the harm caused by finance, the level of value extraction, financial market short termism, and the *quality* and *efficiency* of finance relying on industry trade body reports produces a misleading 'balance sheet' of the City's contribution to the real economy, environment, and social issues.

We hope this proposed framework will support the production of a State of Finance Report to challenge partisan industry reports. Developing such a framework and producing independent reports would undoubtedly present a challenge but it is do-able and it is needed. It is surely undesirable that we are so poorly informed about the performance of such a critical sector that has so much influence over the economy, environment, society, and our overall financial and economic wellbeing. We should be able to tell how well finance is working for us, and how well the main regulators are working for us.

Recommendations

1. HM Treasury and the main financial regulators should convene a working party with civil society to recommend improvements to the data collected and published by the key regulators with respect to their existing statutory objectives.
2. The key regulators should use their resources to gather and publish more comprehensive data and evidence on the performance of the critical sector they regulate. This should be based on the performance outcomes and metrics set out below in the report and in Annex II.
3. These new performance metrics should form the basis of enhanced regulatory accountability in the form of regular reporting by the regulators and to Parliament, particularly the Treasury Committee, and the public.
4. Civil society organisations should collaborate on:
    a. producing new research on financial activities to fill the gaps in the current data;
    b. creating a new central repository of performance metrics, data, and research on the finance sector overall and the main sub-sectors; and
    c. publishing a regular State of Finance Report.

Introduction

It goes without saying that the UK finance sector is hugely important, for good and bad, to the UK economy, the environment, and society generally. The Government actively promotes its interests. We've seen a programme of financial deregulation in key areas of financial services, regulators given statutory objectives to promote the growth and competitiveness of the sector, and the provision of corporate welfare to persuade the City to provide finance for the UK's core environmental, physical, and social infrastructure. The Government is developing a growth and competitiveness strategy for the sector.[18]

The City has well-resourced financial lobbies and many champions in the media, politics, and government quick to extol the positive contribution the City makes to the UK's national interest. There is a great deal of information and data produced by financial sector lobbies and government to reinforce this positive role. Indeed, the Government and industry trade bodies have previously collaborated on producing a State of the Sector report which promotes the positive role of the City.[19]

At the Financial Inclusion Centre we recognise the importance of the City and the positive contribution it makes to our lives. But we need some balance in any assessment and we need to acknowledge the negative aspects of such a dominant financial sector. Memories of the Global Financial Crisis (GFC) in 2008, market crises such as 'Black Monday' in 1987 and the dotcom bubble bursting, and the litany of consumer misselling scandals[20] that created a legacy of mistrust are fading.

At least when that type of crisis breaks, we hear about it. The more difficult challenge for civil society is to evaluate and communicate the negative 'business as usual' impacts the City has on the real economy, environment, and households and society. What we call the environmental, economic, and social (EES) utility of finance.

In addition to crisis events, the activities of the City can cause real harm. For example:

- Financial market short termism hinders the ability of real economy firms to obtain the sustainable long term finance they need.
- The City continues to finance, at scale, economic activities that harm the environment or corporations that do not comply with meaningful standards on labour or human rights or what is often termed 'people and planet'.
- Financialisation of the economy can exacerbate regional and income inequality and financial market behaviour contributes to financial exclusion, economic and social injustice, and over-indebtedness.
- Poorly designed, costly products and services extract value from pensions and savings.

The City doesn't just provide financial services. The allocation of finance influences behaviour in the real economy and society and how much progress is being made towards achieving the transition to net zero. So, it needs to be judged on its wider economic, environmental, and social utility.

But, there's the rub. Although we hear a lot about how much of a contribution the finance sector makes to the economy, for example in terms of share of GDP, there is a limited amount of independent data and information published that allows us to evaluate how well the financial sector serves our wider interests. It follows that we cannot meaningfully evaluate how well regulators are doing in making financial markets work.

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[18] Financial Services Growth and Competitiveness Strategy - GOV.UK
[19] State of the sector | annual review of UK financial services 2022 (theglobalcity.uk)
[20] Such as personal pensions, mortgage endowment, and payment protection insurance (PPI) misselling and rip off with profits products.

This is for a number of reasons:

- There is no agreed comprehensive performance framework that allows Parliament and civil society to objectively evaluate the utility of the financial sector.
- The legislative framework for financial regulators is limited. Regulators will only publish data that pertains to their remits; although as we highlight in this report even that data is limited.
- The various finance lobbies are well resourced and can commission research and publish reports which allow them to create a narrative which highlights the benefits of the financial sector and downplays the harm.
- Civil society does not have the resources to undertake the necessary research or even synthesise the available data and research into a coherent framework to challenge the dominant narrative and communicate to opinion formers, policymakers, and the public.

This report proposes a new performance framework which would allow civil society, policymakers, and regulators judge the impact of finance on people, the planet, and the economy. The framework consists of a set of high level outcomes which articulate the conditions that should be met if finance is serving the interests of the economy, environment, and society/consumers. This is underpinned by detailed performance metrics for each category along with potential sources of data and research.

We hope to persuade Government and regulators to adopt a more objective, comprehensive performance framework. Ideally, civil society stakeholders would collaborate to produce a regular Public Interest Audit of Finance or a State of Finance Report to counter the partial assessments produced by finance sector trade bodies and relied on by government.

What we are proposing is not measurement for the sake of it. This framework would enable Parliament and civil society to hold financial institutions to account and also enable a more objective assessment of the Government's financial services strategy and performance of financial regulators. Critically, policy should be evidence based. Partial analysis results in poor policy. A more objective, balanced evaluation using this framework would enable more effective policy and regulatory interventions.

We are grateful to those experts who gave up their time to be interviewed for this project and for their recommendations on the metrics that could be used to evaluate the performance of the financial sector.

We look forward to working with colleagues in civil society to develop such a performance framework.

Malcolm Hurlston CBE
Chairman
The Financial Inclusion Centre
January 2025

Background: the case for reform

The sheer size, importance, and influence of the UK financial sector on our lives means there already was a strong case for a more comprehensive, objective performance framework to enable Parliament and the public to judge the utility of finance and regulatory effectiveness. A number of recent policy initiatives has made that case even stronger.

The Financial Services and Markets Act (FSMA) 2023 introduced a new secondary objective for the FCA and the Prudential Regulation Authority (PRA). The regulators are now required to facilitate the medium-to-long term growth and international competitiveness of the UK economy and, in particular, the UK financial sector. The Act requires that both the FCA and the PRA produce reports on how they have worked to embed the new objectives in their processes and practices, and advanced the new objectives.

In addition to the regulatory growth and competitiveness objective, the Government is developing a growth and competitiveness strategy for the sector.[21]

The Financial Inclusion Centre and others have raised serious concerns about this new competitiveness and growth agenda. It could compromise the strategic and operational independence of the regulators and their ability to deliver on their critical statutory objectives such as maintaining financial stability, protecting consumers, and making markets work for society.

From this perspective of this report, there does not seem to be much thought given by Government and regulators on how to provide an objective measure of growth and competitiveness. The presumption seems to be that what's good for the City is good for the UK.

The Financial Inclusion Centre said in its submission to the House of Lords Industry and Regulators Committee report on the accountability of UK regulators that "*regulators should be judged on how well they make the industries they regulate serve the interests of the real economy, environment and society, not on how well they serve the interests of regulated industries*".[22]

We are concerned that the Government focuses too much on how well the regulators serve the interests of the financial sector. The emphasis is on how quickly financial regulators authorise new firms, business models, and products and on the costs to the financial sector.

The Government is requiring financial regulators to produce specific operational metrics on their performance in supporting the industries they regulate.[23] Regulators will have to produce data on numbers of firms authorised/licensed, numbers of applications received/removed, 'burdens' removed, what proportion of interventions support growth, and performance in attracting overseas business.

HM Treasury has also collaborated with the City of London Corporation to produce a State of the Sector of the report.[24] This is now an annual review produced by the City of London Corporation.[25]

Of course, regulators should be transparent on operational efficiency. But, now that the financial regulators do have this secondary objective to facilitate the growth and competitiveness of the UK

[21] Financial Services Growth and Competitiveness Strategy - GOV.UK The Financial Inclusion Centre submission to that consultation can be found here: HM Treasury Financial Services Growth & Competitiveness Strategy | The Financial Inclusion Centre
[22] committees.parliament.uk/publications/43211/documents/215050/default/
[23] Financial_Services_Regulation_-_Measuring_Success_-_Response_to_the_Call_for_Proposals.pdf (publishing.service.gov.uk)
[24] State of the sector | annual review of UK financial services 2022 (theglobalcity.uk)
[25] State of the sector: Annual review of UK financial services 2024

economy, and there is to be a separate strategy for the financial sector, we think it is important that stakeholder groups develop their own performance framework and metrics to provide a more objective, rounded assessment of the performance of the financial sector and the regulators.

The problem is that it is very hard to tell whether or not financial regulators are doing a good job in protecting consumers or making markets work. Civil society can infer that financial regulators are performing well by, for example, the absence of regular systemic misselling scandals. There is some data on financial inclusion provided by the very helpful FCA Financial Lives Survey.

However, there is a glaring lack of consistent, comprehensive performance metrics and data on how well financial markets are serving the needs of the real economy, environment, and society. This means, we are unable to judge how well financial regulators are performing in making financial markets work.

The size and importance of the financial sector

Much has already been written about the size of the UK finance sector. So, we provide a brief summary in this report. It goes without saying that the financial sector is hugely important to the UK economy and society.

Financial and related professional services contributed £275bn to UK gross value added (GVA) in 2022. It is the fourth largest industry sector in the economy accounting for nine percent of gross value added.[26] At a national level, the financial and professional services industry contributed a record £110.2bn to the public purse in 2023 equivalent to 12.3% of total UK tax receipts.[27]

The City of London is ranked first or second in the overall ranking of financial sectors and near the top of the global league in each of the main financial sectors such as banking, insurance, and asset management.[28] In some smaller economies, finance makes a bigger comparative contribution to the national economy but the UK financial sector is still the fourth largest in the world on that basis.[29] The economic benefit generated by the financial sector is unequally distributed across the UK, with around half of the sector's output generated in London.[30]

More generally, the City of London is seen by politicians as the 'goose that lays the golden egg' or one of the remaining 'jewels in the crown' of the UK economy, which is why successive governments have been so keen to create such favourable conditions.

Yet the data on its own does not properly convey the role finance plays in society. Like the tech sector, the finance sector is a contributor in its own right to GDP. But, it is also a critical service industry in that it is meant to serve the interests of the real economy, households/consumers, and increasingly to support environmental goals.

At its core, the financial sector has a number of primary functions. It:

- Provides banking and payments services allowing wages and bills to be paid, and money to be transferred around the system and withdrawn from ATMs.
- Channels investment capital and loans to firms in the real economy (and to the Government) and in doing so allows households to save for the future through pension, insurance and investment funds.
- Creates credit and money through the process of 'financial intermediation' and 'maturity transformation' providing mortgages and loans to households and real economy firms and provides depositors with a return on their savings.
- Provides insurance and risk management services allowing households to insure themselves and their possessions, and firms to protect against business risks and economic risks such as foreign exchange or commodity price volatility.

In the process of providing those services, finance influences the behaviours of the businesses and households it provides services to. It could play a major role in aligning the interests of the UK economy with climate goals. It is difficult for households to participate fully in the economy and society nowadays without access to some form of bank account. Households without savings,

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[26] In 2023 the largest contributor to economic output was real estate, followed by retail and wholesale and manufacturing. https://commonslibrary.parliament.uk/research-briefings/cbp-8353/

[27] Total tax contribution of UK financial services - City of London

[28] City of London remains top global financial centre in own survey | Reuters London and New York tie as top global financial centres according to new benchmarking research (cityoflondon.gov.uk)

[29] Behind Luxembourg, South Africa and Switzerland https://data.oecd.org/natincome/value-added-by-activity.htm

[30] https://researchbriefings.files.parliament.uk/documents/SN06193/SN06193.pdf

insurance, or access to affordable credit are very vulnerable to economic and financial shocks. Socially useful financial services help build financial inclusion and resilience amongst households. The City could help promote sustainable economic growth by providing the finance that real economy businesses need supporting regional economic growth in the process.

So, the finance sector should be judged on how well it functions in the interests of the economy, environment, and society. In other words, it should be judged on the economic, environmental, and social utility, not just on headline economic numbers. However, as we outline below, it is not actually possible to evaluate how well the finance sector is serving our interests.

The role and objectives of the financial regulators

This report calls for a new framework to:

- evaluate the economic, environmental, and social utility of finance; and
- the performance of the financial regulators in ensuring finance serves those interests.

Therefore, it is worth briefly covering the role of the main financial regulators. Of course, financial regulators should only be judged on the objectives and duties given to them by Parliament and policymakers, and how well they regulate financial activities within their remits.

For example, financial regulators do not have specific primary objectives to protect the environment or prevent the City from financing climate harm. The FCA does not have a specific duty to promote financial inclusion, although it has been recently given a 'have regard' relating to financial inclusion.[31] Financial regulators do not have an explicit objective to ensure that finance supports regional economies.

This is not to say that regulators have no role to play in determining whether these public policy objectives are met. The regulators do have to consider many of these issues in the form of 'have regards' when carrying out its responsibilities.

Nevertheless, they should not be judged to the same degree for failure to effectively regulate activities that do not form part of their statutory primary objectives. Overall responsibility for ensuring markets deliver on certain key public policy goals remains with government. Therefore, to produce an overall evaluation of how well the financial sector serves the interests of the real economy, environment, and society we need to consider financial activities covered by the regulators' objectives and remits, *and* those activities which fall outside the regulators' remits and are the responsibility of government.

The main regulators that influence - or could influence - the performance of the finance sector are: the FCA, Bank of England (BoE)/PRA, The Pensions Regulator (TPR) and The Financial Reporting Council (FRC). The Competition and Markets Authority (CMA) can have an influence on the finance sector if there is a significant competition issue to address. However, it is not a specific financial market regulator, so we don't cover it. The same applies to the Information Commissioner's Office (ICO).

For this report, the FCA, BoE and PRA are the most relevant. We provide a brief summary of the regulators' main objectives that are relevant for this report, below. In the next section, we look at the data published by the regulators.

FCA

Statutory objectives

The FCA has a high level strategic objective to 'make sure relevant markets function well'.[32] It has three key operational objectives to: protect consumers from bad conduct; protect the integrity of the UK financial system; and promote effective competition in the interests of consumers.

[31] See: CX_Letter_-_Recommendations_for_the_Financial_Conduct_Authority__FCA__-_Nikhil_Rathi_14112024.pdf and FCA's response to Treasury remit letter 2024

[32] statutory objectives - FCA Handbook

The FCA also covers wholesale and capital markets, and oversees the listings regime for UK public markets. Along with the FRC, it plays an important role in setting standards of disclosure for 'real economy' firms whose shares are listed on the UK's public markets.

It also has a number of duties, principles, and 'have regards' which are intended to define *how* the FCA fulfils those objectives. It takes those into account when making its regulations and rules. The FCA's regulatory ecosystem is very complex so we only cover some of the relevant parts to illustrate the role could play in producing more comprehensive data on the performance of the finance sector.

The FCA does not have an explicit statutory objective in relation to the environment, but it must 'have regard' to the UK's environmental targets and the legal commitment to a net zero economy by 2050.[33] It also does a considerable amount of work on ESG issues. The FCA wants to encourage sustainable finance and, as part of its sustainability disclosure regime, has introduced a new labelling regime and anti-greenwashing rule.[34]

Other areas the FCA should 'have regard' to include: ensuring capital markets are competitive and support UK growth; sustainable finance and infrastructure finance; and financial inclusion. [35]

The point of the above is that while sustainability, inclusion, and the interests of the real economy might not be primary FCA objectives, the regulator is clearly expected to play a role in ensuring that finance serves the interests of the environment, real economy, and households.

BoE/PRA objectives

The BoE[36] aims to achieve price stability (limiting inflation) and maintain financial stability in the UK, which means that the UK financial system is stable enough to keep providing essential financial services even if the economy takes a downturn. The BoE supervises a number of the critical financial market infrastructures (FMIs) such as payment, clearing and settlement systems which enable financial transactions in the economy and financial system to take place.[37]

The PRA[38] sits within the BoE and has the general objective to promote the safety and soundness of banks, building societies, credit unions, insurers and major investment firms in the UK.

The PRA's objectives are to:

- Promote the safety and soundness of the firms it regulates
- Contribute to securing an appropriate degree of protection for insurance policyholders

It has a secondary objective to facilitate effective competition in the markets for services provided by PRA authorised persons in carrying on regulated activities'

The PRA and FCA also have a secondary objective to support the UK's economy and facilitate economic growth and competition with a particular emphasis on financial services. The BoE has a secondary objective with regards to innovation in the provision of FMI services.[39]

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[33] Our climate-related financial disclosure 2023/24
[34] All aboard: strong infrastructure for smooth journeys | FCA
[35] Recommendations for the Financial Conduct Authority: November 2024 - GOV.UK
[36] What does the BoE do? | BoE

[37] The BoE's approach to financial market infrastructure supervision | BoE
[38] Prudential regulation | BoE
[39] Our secondary objective | FCA Our secondary objectives | BoE

TPR

TPR is the regulator of workplace pension schemes.[40] TPR's key roles are: ensuring employers comply with the 'automatic enrolment' legislation); protecting people's savings in workplace pensions; improving the way that workplace pension schemes are run; reducing the risk of pension schemes ending up in the Pension Protection Fund (PPF);[41] and making sure employers balance the needs of their defined benefit pension scheme with growing their business.

Making sure workers' pensions are safe is a priority for TPR along with delivering value for money for savers and ensuring decisions made on behalf of savers are in their best interests. The scale of financial assets held by pension schemes and their influence on the financial system, means that schemes are expected to play an important role in realigning financial markets with sustainable finance goals and in particular the Government's Green Finance Strategy.

So, there is a lot of relevant data and information TPR could be publishing to allow civil society to monitor and evaluate how well pension schemes (and the asset managers who actually make most of the investment and asset allocation decisions) are serving the needs of pension savers, society, and the environment.

FRC

The FRC regulates auditors, accountants and actuaries. It sets accounting, auditing, and actuarial standards and the oversees the UK's Corporate Governance and Stewardship Codes. It says its work is aimed at investors and others who rely on company reports, audit and high-quality risk management. The FRC, along with the FCA, will play an important role in ensuring listed companies disclose climate related information in their financial reports. The FRC also has a specific project on ESG data more broadly and sets out recommendations to help companies improve their practices and the quality of their ESG data.

While it doesn't regulate financial services directly, the FRC regulates the companies that financial institutions invest in, lend to, and insure and facilitates their listing on the UK's public markets. So, if we are to measure the effectiveness of the City, we have to know the effects of financial institutions' decisions on corporate behaviours in the real economy.

[40] Note that the FCA regulates personal pensions
[41] Pension Protection Fund (PPF)

Assessing the performance frameworks and data used by regulators

If we want to assess the economic, environmental, and social utility of finance, we obviously need a meaningful framework and metrics that could be used to objectively evaluate the sector's performance. We also need such a framework and metrics to evaluate the outputs produced by finance trade bodies, and the performance frameworks and data used by regulators and other relevant parties.

So, we began this project by defining a set of high level outcomes or tests that should be met if finance was working in our interests, specifically in the interests of consumers and households, social policy goals, the environment, and the real economy.

For example, for the consumer category the preliminary outcomes we started with were based on the established consumer principles of access and inclusion, choice, quality, value for money, redress, and so on.

On the environment, the preliminary outcome measures were observing an increase in the amount and quality of financial resources supporting green economic activities, a decrease in the amount financing climate harming economic activities, a reduction in greenwashing, and an improvement in the quality of reporting and disclosure on ESG issues.

On the social category, the 'S' in ESG, the preliminary outcomes included observing an increase in genuine social impact finance, financial institutions being more active in ensuring the corporates they finance comply with high standards on labour market rights, gender pay gaps.

For the real economy category, the preliminary outcome measures included assessing the cost of finance for business, the suitability of finance, and whether finance was delivering for regional economies and smaller businesses not just large corporates.

We then interviewed a group of experts including academics and civil society representatives (the interview questions and summary of expert views can be found, below) to get their input on the utility of finance and how they evaluated whether finance is meeting our interests. Following this, we revised and refined the preliminary outcomes.

Once we had established the outcomes for each category, we identified a set of performance metrics that would tell us whether these outcomes were being met and to monitor and measure whether progress is being made.

We then researched the available data sources, focusing on the financial regulators, to determine whether it is actually possible to judge how well finance is working in our interests.

We concluded that financial regulators do not use a comprehensive performance framework to evaluate the finance sector. Furthermore, while there is a significant amount of data out there, it is not coordinated in a way that allows for a meaningful, objective evaluation of the finance sector. There are also major gaps in the data.

We provide an overview of the key sets of data published by the main regulators below. The overview does not cover all data produced by the regulators; we focus on the data that might help observers evaluate the utility of finance and the role of regulators in making financial markets work.

To reiterate, it is worth noting that in terms of publishing relevant data, regulators are, to a large extent, limited by their statutory objectives and remits. For example, as mentioned, they do not have primary statutory objectives to align financial markets to environmental or social goals, or promote financial inclusion. Although the various 'have regards' and duties in relation to sustainability, the economy, and financial inclusion means the regulators do have a role to play in delivering public policy goals and are very well placed to ensure the right data is gathered and published to facilitate an evaluation of the utility of the finance sector.

The FCA

The FCA says it is a 'data-led' regulator.[42] To be fair, it does publish a comprehensive set of metrics on matters such as consumer satisfaction with providers, consumer confidence in financial services, reductions in financial crime, and data on complaints to the Financial Ombudsman Service (FOS). Over time this could allow civil society to gauge to some degree how well retail financial services are meeting consumers' needs.[43]

The FCA also publishes an assessment of the aggregate value of its policy work.[44] Again, this is helpful. But these are primarily one-off assessments of specific interventions.

What the FCA doesn't do is produce a comprehensive, accessible state of the sector performance report on the sectors it regulates. It does not provide the opportunity to monitor and track the performance of UK financial services on an ongoing basis.[45] Given that its overarching objective is to ensure markets function well, this is strange. Surely, the regulator would want to know how well markets are doing. Importantly, it is not possible for civil society and elected representatives to judge how well the FCA is doing.

The absence of a comprehensive performance framework is surprising given that it has recently implemented a new flagship initiative called Consumer Duty. Under the Duty, firms must act to deliver good outcomes for retail customers:

Culture, governance, and monitoring: consumers should have confidence in retail financial services markets, with healthy competition based on high standards and firms focused on delivering good customer outcomes.

Consumers in vulnerable circumstances: vulnerable consumers should have outcomes as good as other consumers.

Products and services: consumers should be sold products and services that are designed to meet their needs, characteristics and objectives.

Fair value: consumers should get products and services which offer fair value.

Consumer understanding: consumers should understand the information they are given and make timely and informed decisions.

[42] FCA sets out plan for the year ahead | FCA
[43] FCA outcomes and metrics | FCA
[44] Our Positive Impact 2023
[45] FCA outcomes and metrics | FCA

Consumer support: consumers should be provided with support that meets their needs.

The absence of comprehensive metrics and data means it is not actually possible to provide a meaningful assessment of how well retail financial services are performing in relation to most of those core outcomes, or monitor progress against those outcomes.

The FCA will start to collect some very detailed data from consumer credit companies as part of its supervision activities.[46] It will be interesting to see if the FCA will publish this data in future to allow for greater scrutiny on the practices of the consumer credit sector.

It also publishes its major Financial Lives Survey that includes data on holdings of products, and some data on which groups of consumers were turned down for products. This could be used as a proxy for tracking financial inclusion over time.[47]

It has recently published analysis of rates paid on savings accounts.[48] Again, this is a one-off piece of research. Therefore, it comes nowhere near providing the same level of detail as that provided by OFGEM which publishes time series data on a range of retail energy market indicators.[49]

The key issue here is that most of the data published by the FCA is fairly high level, and based on one-off snapshots, or self-reporting by consumers. The FCA does not publish regular tracking data on the utility and performance of the sectors it regulates. For example, the FCA doesn't publish tracking studies on charges on overdrafts and other consumer credit products, investment funds, personal pensions and insurance products among others.

Nor does it publish data on how much different groups of consumers pay for products, claims performance for insurance companies, or the investment performance of asset managers and insurers. It doesn't publish annual state of the sector reports based on its supervisory activities which monitor firms' compliance with regulatory objectives, and FCA rules and guidance. Instead it relies on consumers basically self-reporting, through surveys of satisfaction levels with firms.

Of course, self-reporting can be of some use when it comes to comparatively simple issues such as satisfaction with customer service or levels of confidence in financial services. But, self-reporting is not helpful when it comes to assessing whether markets are working in terms of giving consumers a fair deal. The typical consumer is not generally in a position to judge if they are being charged a fair price, being sold an unsuitable product, or whether competition is working.

The FCA also relies on complaints data produced by the FOS. Again this is obviously of interest. However, the history of the major misselling scandals tells us that consumers were not actually aware they were being ripped off; they had to be informed by consumer campaigners. So, while FOS data might be helpful for tracking general satisfaction with financial services, it tells us little about the underlying performance of the financial services industry.

The absence of regular, comprehensive, consistent and accessible performance data on indicators such as costs and value for money, product suitability, levels of exclusion and discrimination on core retail financial services makes it very difficult for independent observers to evaluate whether the financial services industry is actually working for consumers. In short, we just don't know.

Because we don't know how well the market is working, we can't tell with confidence how well the FCA is doing. This is not to say that we think the FCA is doing a poor job. We take the view that

[46] PS24/3: Consumer Credit – Product Sales Data Reporting | FCA
[47] Financial Lives 2022 survey | FCA
[48] FCA update on cash savings - September 2024 | FCA
[49] Retail market indicators | Ofgem

although scandals still happen all too often, the FCA has done a good job in improving the standards of conduct in retail financial services. We do not see the same number and scale of scandals as we did in the past. Claims to the FSCS have also fallen.[50] The key point is that we have to infer that the FCA is doing a good job from the absence of multiple scandals.

On the wholesale market side, the FCA says that *'Wholesale financial markets enable companies, public sector organisations, governments and financial institutions to raise short-term finance and long-term capital to invest, undertake domestic and international trade, and manage financial and other risks.'*[51] This aligns well with the articulation of the role of financial markets in supporting the real economy we use in this report. The FCA also publishes some wholesale market metrics. These mainly relate to market integrity, confidence of market users, and operational resilience. Again, there are no metrics relating to the costs, terms, and quality and value of the finance and capital provided so we cannot say whether markets are indeed providing the finance needed by the real economy.

As mentioned, it is interesting to contrast the approach adopted by OFGEM, the utility regulator, which publishes in a central place a significant amount of data on wholesale as well as retail energy markets.[52]

While the FCA does not have a specific primary objective with regards to aligning financial markets with environmental goals, it does have a dedicated ESG strategy, and other obligations as outlined above.[53] The FCA's focus is on improving climate and sustainability related disclosures provided to markets to aid market pricing and decision making, increase consumer trust, and enhance active investor stewardship with the goal of influencing companies' sustainability strategies.[54] [55]

The FCA has a number of key initiatives aimed at improving the quality of disclosure and levels of consumer trust in ESG products. It has developed a new Sustainability Disclosure Requirements and investment labels regime. It has set out plans to address greenwashing in the market, and is working with international partners to promote effective global sustainability reporting standards. It also intends to enhance transparency of listed companies' and regulated firms' diversity and inclusion performance.

With regards to ESG performance data, the FCA is intending to use a very limited set of metrics. This includes a measure which assesses the 'quality' of climate related disclosures by the average number of pages in Annual Financial Reports (AFRs). It also intends to monitor incidences of misleading marketing of ESG products and consumer trust in ESG products.

The FCA and the other regulators are working with the Government on the sustainable finance strategy set out in the document Greening Finance: A Roadmap to Sustainable Investing.[56] The intention is that Sustainability Disclosure Requirements (SDR) will create an integrated framework for 'decision-useful' disclosures and metrics on sustainability all along the economic and financial supply chain through the financial system to real economy businesses. Core to this will be enhanced reporting and disclosure on sustainability at three levels: corporate disclosure with new requirements for companies to make sustainability disclosures; asset manager and asset owner disclosure; and investment product disclosure including new requirements for creators of investment

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[50] Consumer topline outcomes and metrics | FCA CCO2-M01
[51] Secondary International Competitiveness and Growth Objective report 2023/24 (fca.org.uk), p15
[52] Data portal | Ofgem
[53] A strategy for positive change: our ESG priorities | FCA
[54] FCA outcomes and metrics | FCA
[55] Climate change and sustainable finance | FCA
[56] Greening Finance: A Roadmap to Sustainable Investing (publishing.service.gov.uk) This strategy was developed by the previous Government. We are presuming that much of this will inform the new Government's approach.

products to report on the products' sustainability impact and relevant financial risks and opportunities.

So far, the FCA has focused on narrative disclosures rather than 'hard' performance data. It is not clear whether the FCA will collect and publish the type of objective institutional ESG performance data such as the greenness ratio of investment fund portfolios,[57] or what proportion of companies held in portfolios comply with the highest standards on labour market rights. But, clearly, if we are to evaluate the progress of finance against ESG goals, and the performance of the FCA, we will need hard performance data.

BoE/PRA

The BoE does publish quite a bit of market data that could be useful for civil society. It includes data on the amount of lending to households and businesses, write offs, and the rates paid on loans, credit, and deposits; net finance raised by 'real economy' businesses, and capital issuance; data on bank capital ratios and risk weighted assets; and specific data on credit unions.[58]

Some of this data such as that relating to overdraft charges and mortgage rates could be better used by the FCA.

The BoE also publishes a large number of research papers including on the preparedness of UK financial system and institutions for the impacts of climate change.[59]

However, as of yet, there is no central source of data on the core metrics recommended by the TCFD and ISSB disclosure frameworks e.g. carbon intensity, carbon footprint, and financed emissions held in portfolios and loan books of UK financial institutions.

There have been some attempts by civil society organisations to measure the amount of harm financed by UK financial institutions.[60] But, we are a long way off having a comprehensive data on how much climate harm the finance sector is financing or how much risk the financial system is exposed to climate risks. So, we cannot monitor and track how much progress is being made in realigning financial markets with climate goals.

Similarly, there is no central source of data setting out compliance with social impact goals, the 'S' part of ESG.

TPR

TPR publishes data on the size and profile of pension schemes, and scheme funding levels.[61] It does not publish regular data on the costs and charges levied by investment managers for managing pension assets.[62] Nor does it publish data on the performance of the investment managers who manage the assets for pension schemes.

There are other sources of data on costs and charges, and asset allocation decisions (important for understanding how much pension schemes are investing in 'real economy' assets. For example, the Department for Work and Pensions produces reports on trends in the pensions market which

[57] For example, that published by ESMA. See: ESMA 50-165-2329 TRV Article - EU Ecolabel: Calibrating green criteria for retail funds (europa.eu)
[58] Latest developments in the Bank's money and credit statistics - A visual summary of our data | BoE, Banking sector regulatory capital - 2020 Q4 | BoE, Credit union quarterly statistics - 2024 Q1 | BoE Effective interest rates - July 2024 | BoE Further details about monetary financial institutions' loans to non-financial businesses, by size of business data | BoE
[59] Results of the 2021 Climate Biennial Exploratory Scenario (CBES) | BoE
[60] UK's annual carbon emissions of the Finance sector | WWF
[61] Scheme funding analysis 2023 | The Pensions Regulator
[62] It did publish a survey in 2014 db-scheme-costs-research-2014.pdf

includes some information on costs and charges.[63] Moreover, there are reports produced by research organisations[64] and private sector consultancy firms.

There is comprehensive information available on the huge Local Government Pension Scheme, which has nearly 6.5 million scheme members.[65] Of course, this is not the whole market but it does provide a good indication of the charges and costs levied by the investment management industry.

TPR publishes some narrative reports on alignment with climate goals.[66] It does not produce regular data which allows external observers to measure how much climate harm pension schemes are financing.[67]

FRC

The FRC publishes a number of helpful narrative and thematic reports.[68] It does not publish regular, granular data on individual companies that would be useful for civil society – for example, sustainability disclosures at the individual firm level which would help civil society monitor whether financial markets are having a positive effect on the behaviours of real economy firms on environmental and social issues.

A very partial picture is provided by financial regulators

The conclusion we reach about the FCA and the other leading financial regulators is that, although some helpful data on market performance is published, it is not currently possible for Parliament and civil society to easily see how well those financial markets and financial institutions currently regulated are serving the interests of the economy, environment, households and society generally. Therefore, we cannot easily judge how well the financial regulators are doing.

Moreover, key financial market actors such as powerful investment consultants who influence the allocation of £1.5 trillion of assets held by pension funds and other institutions are, to all intents and purposes, not regulated. So, key activities such as the impact of financial decisions on the environment made by influential market actors are basically unregulated although we expect this to change.

So, we have a very partial picture of regulated and unregulated activities. This view is shared by the experts we interviewed. A summary of the interviews can be found below.

By definition, the regulators will focus on collecting, analysing, and reporting data and information relating to their primary objectives. Yet even this data is limited. It is actually quite difficult to judge how well financial services are serving the interests of consumers as the FCA publishes limited data.

As trend data is not easily available on factors such as average overdraft charges and insurance premiums paid by different groups of consumers, rejection rates on consumer credit, or investment management costs, we can't actually tell how well the market is currently serving consumers or whether it is improving or deteriorating. That means we can't tell how well the FCA is doing its job. That is a pretty big gap in regulatory accountability.

A glimmer of hope on measuring the performance of regulators?

The previous Government responded to proposals in House of Lords Industry and Regulators

[63] Trends in the Defined Contribution trust-based pensions market - GOV.UK (www.gov.uk)
[64] 20230926-the-dc-future-book-9-2023.pdf (pensionspolicyinstitute.org.uk)
[65] LGPS Scheme Advisory Board - Scheme Annual Report (lgpsboard.org)
[66] Market oversight: Review of trustee compliance with environmental, social and governance duties | The Pensions Regulator Review of climate-related disclosures by occupational pension schemes: Year 2 | The Pensions Regulator
[67] For example, derived from metrics that pension schemes are required to report Climate-related metrics | The Pensions Regulator
[68] Corporate Reporting Thematic Reviews and Generic Press Notices (frc.org.uk)

Committee report 'Who Watches the Watchdogs' in a positive way. The Government had said that it 'will develop a framework to allow for the consistent evaluation of statutory duties across all regulators, where specific evidence of problems has been identified.'[69] We don't know how the new Labour Government will follow up on this recommendation. But, it is good to see the need for evaluation of regulators acknowledged.

None of this will happen unless civil society and consumer groups keep up the pressure and ensure the appropriate performance metrics are used. Note the emphasis on 'where specific evidence of problems has been identified'. The Government intended that a framework would be developed only if evidence of problems is produced. Therefore civil society will need to produce preliminary analysis of the performance of the financial sector to highlight where the sector is performing badly.

Other data sources

Of course, government departments and regulators aren't the only source of data on the performance of financial markets and institutions. There is a plethora of data published by civil society organisations and commercial information providers and analysts.

For example, ShareAction produced a comprehensive evaluation of the world's largest insurers' approaches to responsible underwriting and investment, an assessment of whether asset managers have policies in place to deal with environmental and social impacts, and the transparency of major European banks' green finance activities.[70]

Make My Money Matter published a survey which ranked the leading firms in the pensions sector on their approach to tackling climate change and a high-level analysis of fossil fuel exposure in UK pension funds.[71]

Corporate Adviser magazine produced an analysis of the carbon footprints of the major pension providers.[72]

There is a lot of paid-for research and data available. Not surprisingly, given how lucrative the financial services industry is, there is plenty of data produced by private sector consultants and research organisations. However many of these reports are not readily accessible as they can charge very high prices.

The conclusion we reach is that, considering the available data produced by financial regulators and other providers, it is not actually possible to say with any degree of confidence how well finance is serving the interests of the real economy, environment, and society. We lack the necessary data, metrics, and performance framework to do so.

It might sound controversial but we must also conclude that the main financial regulators can't actually tell how well the markets and sectors they regulate are doing. Policymakers and the main regulators remain too inwardly focused; the presumption seems to be that if they engineer a set of market and regulatory inputs and outputs, the right market outcomes will necessarily emerge.

Developing a comprehensive, complete picture would require some new research and analysis. But, the regulators are already well placed to process, analyse, and present much more effectively the

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[69] UK Regulators - Government Responses - Committees - UK Parliament committees.parliament.uk/publications/44808/documents/222528/default/ , para 64
[70] Insurance-May-24-Max-Edits_2024-06-25-145139_ejvf.pdf (assets-servd.host) ShareAction | Racing against time: Asset managers' green ambitions… ShareAction | Green Ambitions, Grey Realities: European Banks'…
[71] Make-My-Money-Matter-Climate-Action-Report-2024.pdf (makemymoneymatter.co.uk) Fossil Fuels in UK Pensions report (makemymoneymatter.co.uk) FTSE100-hidden-emissions-—-September-2022.pdf (makemymoneymat.wpenginepowered.com)
[72] CA ESG report: Pension schemes with lowest and highest carbon footprints revealed - Corporate Adviser (corporate-adviser.com)

data they already gather as part of their regulatory objectives and duties. The metrics they currently publish don't have to be so limited. Moreover, regulators, given their reach and resources, could seriously enhance the breadth, depth, and quality of the data they gather and analyse that pertain to their existing regulatory objectives and duties.

Our proposed framework for objectively assessing the impact of the UK finance sector on People, the Planet and the Economy.

In this section, we summarise our proposed new performance framework which would allow civil society, policymakers, and regulators to judge the impact of finance on people, the planet, and the economy.

The framework we present here would allow for a much better overall assessment and regular monitoring of the performance of the financial sector using a combination of tracking studies, one-off analyses, and qualitative assessments and expert opinions.

Ideally, we would want to use this new performance framework and metrics to produce a regular 'Public Interest Audit of Finance' or 'The State of Finance Report' to:

- challenge the claims made by financial lobbyists;
- allow civil society and other stakeholders to judge how well finance meets the needs of consumers, businesses in the real economy, and the environment; and
- in doing so, judge the effectiveness of financial regulators.

The proposed performance framework has specific sections to allow for evaluation of how well finance, and regulators, serve the following categories of interest:

- Consumers and households
- The real economy, business with a focus on SMEs and microbusinesses, regional and local economies
- Environmental and social goals

Specifically, we have developed a set of performance outcomes to track and measure how well finance meets the needs of those interests. Each of the categories has its own performance outcomes and metrics.

Using specific performance outcomes and metrics is important as it ties the utility of the finance sector to the needs of the real economy, environment, and society. To reiterate, finance is a *service* industry in that it should serve our needs and interests. Data on contributions to GDP or tax take do not tell us how well finance is serving those needs and interests.

The table below summarises the framework. It contains a set of high level outcomes for each category, with a set of specific outcomes which interpret and articulate the high level outcomes. The high level outcomes articulate the overarching test of whether finance is serving the interests of that group; the specific outcomes and metrics allow users to assess whether this overarching test has been met. Annex II contains a more detailed framework with potential sources of data and research.

Where appropriate, we have expressed these outcomes as both positive and negative outcomes. For example, as well as 'markets, products, and services are accessible and inclusive', it could be 'evidence of high levels of financial exclusion and discrimination'.

Following our desk research and interviews with experts, we refined our preliminary tests and outcomes and identified a set of metrics which would allow for an evaluation of how well the specific outcomes are being met. We think that most of the data and evidence needed to provide a good assessment of each outcome could be collected from existing sources and synthesised. Of course, in some areas there are major gaps so new research and analysis and/or expert interviews and surveys would need to be commissioned and analysed.

The way the framework is structured allows for an overall assessment of how well finance performs in each of those categories. To provide an overall assessment in each of the categories, we propose that a panel of relevant experts be convened to evaluate the available data and evidence. The conclusions of these panels would form the core of the 'Public Interest Audit of Finance' or 'The State of Finance Report' and potentially any subsequent periodic reports.

Performance framework and metrics: consumers and households

High level outcomes

- The financial sector provides access to socially useful, genuinely innovative, affordable, value for money, trustworthy products and services that meet needs and enhance welfare of communities/ citizens/consumers.
- The financial sector behaves with integrity and treats consumers fairly.
- The financial sector supports social goals such as financial and social inclusion, and building financial resilience.
- Finance-related tech/data is used for social good.

Specific outcomes	**Possible metrics**
Products and services are accessible and inclusive/ evidence of high levels of financial exclusion and discrimination, difficulties accessing products and services	• % of consumers who currently hold financial products • Product ownership by income, gender, ethnicity etc • Digital inclusion/exclusion rates • Rejection rates on different products • Numbers and trends in CCJs • Consumers understand products and services, terminology isn't a barrier to inclusion as measured by surveys
Products and services help consumers meet their core financial needs, help build resilience, enhance overall wellbeing (social useful)/ fail to help meet needs and enhance overall wellbeing (socially useless)	• Savings ratios amongst different consumer groups • % with savings cushion • % of consumers who currently hold financial products • Product ownership by income, gender, ethnicity etc • Balance of debt-savings amongst different consumer groups • Pension adequacy amongst different groups • Levels of assets amongst different groups
Products and services are affordable/are costly, consumers priced out of the market	• Surveys tracking % of consumers who say products and services are affordable • Pricing trends • Evidence of the poverty premium in financial services
Products and services provide good value for money/are expensive for what they deliver	• % of consumers who say products and services offer good value for money • % of consumers complaining about financial services • Comparison of charges and fees of dominant providers • Trends in charges and costs • Value for money comparisons for investments and pensions (investment performance net of fees) • Investment fund performance against benchmarks • Claims performance on insurance products • Net margins on mortgage and consumer credit products, savings/loans margins

Financial products and services are genuinely innovative and enhance consumer welfare/ spurious choice, welfare damaging products and services	• Evidence on usage of products such as buy now, pay day lending, sub-prime lending • Evidence of new business models, flexible products which adapt to consumers' needs and lifestyles • Regular stakeholder expert surveys to gauge opinions on how well products are meeting needs of consumers
AI, data, tech used for social good/exacerbates exclusion, discrimination, and behavioural manipulation	• Synthesis of research on practices and impacts of AI, tech, data on financial services and consumers • Regular stakeholder expert surveys to gauge opinions on how well products are meeting needs of consumers
Financial products and services are safe, consumers protected from fraud and scams/victims of scams and fraud, exposed to risky products and contracts	• Surveys and research on numbers of consumers exposed to/victims of scams and fraud • Industry data on business flows into high risk investment/ pension products
Consumers have justified trust and confidence in financial institutions, products, and services/consumers lose trust and confidence	• % of consumers who have trust and confidence in financial services • Trends in complaints and misselling • Trends in fraud, scams, firm failure
Consumers are treated fairly, firms comply with Consumer Duty/treated unfairly, Consumer Duty has limited impact	• % of consumers who have trust and confidence in financial services • Numbers and trends in CCJs • Enforcement behaviours • Trends in complaints and misselling • Evidence on impact of the Consumer Duty
Financial institutions are trustworthy and operate with integrity/are untrustworthy and behave unethically	• Research on levels of misselling • Impact of Consumer Duty Complaints to FOS • Data on scams and frauds
Financial products and services are understandable and easy to engage with/are unnecessarily complex, poorly understood	• Data and research on levels of financial capability and literacy • Data and research on digital capability and literacy
Consumers have access to appropriate redress/are denied access to redress	• Surveys on attitudes to FOS • Comparative analysis of evidence of misselling/fraud with numbers getting redress
Financial system is stable and resilient, institutions are secure/ financial instability, systemic crises, high levels of financial institutions failing	• Data on number of firms failing • Calls on the FSCS
Financial services are well regulated/poorly regulated	• Data on enforcement cases • Impact of Consumer Duty • Comparative analysis of evidence of market failure with enforcement
OVERALL ASSESSMENT OF UTILITY OF FINANCE FOR CONSUMERS	

Performance framework and metrics: sustainability – environment

High level outcomes

Financial market activities are aligned with net zero and wider environmental goals. The financial system is resilient to climate risks.

Specific outcomes	Possible measures and metrics
An increase in finance allocated to economic activities which support climate and wider environmental goals (includes biodiversity)/insufficient levels of finance allocated to climate and environmentally positive activities	• Improvement in financial institution's 'greenness ratios'.[73] • Evidence of improvement in number of financial institutions with climate management plans. • Data on fossil fuel financing • Data on economic activities which harm nature • Number and value of investment funds signed up to FCA's sustainable investment label and complying with meaningful standards.
Economic activities which cause climate and wider environmental harms are de-funded/harmful activities continue to be funded Overall, improvement in the ratio of climate positive-damaging finance/no improvement or reversal in ratio	• Evidence of disinvestment from environmentally harming activities. • Trends in portfolio emissions data at loan book, investment fund, insurance company, pension fund level.
An increase in the most **cost effective** aligned finance allocated to green infrastructure to reduce the cost of net zero transition/expensive short term private finance pushes up cost of funding net zero	• Evidence of growth in investment/financing of sustainable energy generation • Analysis of the source, cost, and terms of finance committed
Quality of financial institutions' transition plans improve/ reduction in quality and accessibility of plans	• Trends in data on financial institution compliance with TCFD/ISSB disclosure and reporting standards. • Qualitative assessment of transition plans.
Greater transparency and meaningful reporting on financial institutions environmental impact and performance/reversals in compliance with standards	• Trends in financial institution compliance with TCFD/ISSB disclosure and reporting standards. • Qualitative assessment of transition plans.
Quality of corporate sector transition plans improve/	• Trends in data on corporate compliance with TCFD/ISSB disclosure and reporting standards.

[73] Eg. esma50-165-2329_trv_trv_article_-_eu_ecolabel_calibrating_green_criteria_for_retail_funds.pdf (europa.eu)

reduction in quality and accessibility of plans	• Qualitative assessment of transition plans.
Greater transparency and meaningful reporting on corporate environmental impact and performance/reversals in compliance with standards	• Trends in data on corporate compliance with TCFD/ISSB disclosure and reporting standards. • Qualitative assessment of transition plans.
UK is a trustworthy global centre of green finance operating to the highest regulatory standards/UK competes on lowering standards	• UK financial markets score well against international peers on green finance standards. • Improvement in regulatory standards via expert assessment.
UK behaves as a responsible global corporate citizen by promoting consistently high international regulatory standards/UK encourages regulatory arbitrage	• Improvement in UK regulatory standards relating to climate finance. • UK regulatory standards meet expectations of civil society organisations. • UK promotes highest global regulatory standards in international standards setting fora.
UK attracts green finance that complies with meaningful environmental standards/ attracts finance that does not comply with high standards.	• Evidence of climate positive listings on UK markets. • Evidence of green financial products launched in UK.
UK reduces exports of climate damaging finance/continues to finance climate harming activities	• Evidence of disinvestment from environmentally harming overseas activities. • Reduction in bank financing, insurance/reinsurance of climate harming overseas activities.
Greenwashing is reduced/ enabled or increases	• FCA reporting reductions in greenwashing. • Reduction in misleading advertisements and promotions.
Social impact washing is reduced/enabled or increases	• FCA reporting reductions in greenwashing. • Reduction in misleading advertisements and promotions.
Financial system is more resilient to climate risk/continues to be exposed to climate risks	• Evidence of UK financial regulators enhancing climate related policies. • Stress testing analysis. • Monitoring of climate related losses.
OVERALL ASSESSMENT OF UTILITY OF FINANCE FOR THE ENVIRONMENT	

Performance framework and metrics: sustainability – social

High level outcome

Financial markets make a positive contribution to tackling social harms such as poverty, inequality, and exclusion, ill health and improving standards of corporate behaviours on social issues such as diversity and inclusion, human rights, fair wages, ethnicity and gender pay gaps.

Specific outcomes	Possible measures and metrics
An increase in finance aligned to social goals/misaligned with social goals	• Evidence of increase in UK financial institutions aligned to the UN Sustainable Development Goals (SDGs) or equivalent.[74]
Financial institutions drive positive behavioural change with regards to social issues in the corporate sector/ negative behaviours	• Growth in corporations complying with high standards on labour market issues eg. ILO standards, paying the Real Living Wage. • Reduction in sales and marketing of harmful products and foodstuffs.
Increase in genuine social impact finance/finance extracting value from social sector assets	• Increase in support provided by financial institutions to organisations engaged in tackling issues such as financial and social exclusion *on below market terms*. • Evidence that rent seeking activity diminishing.
Finance has a positive impact on regional, asset, and income inequality/financialisation contributes to asset and income inequality, intra and intergenerational inequality.	• Evidence of financial institution commitment to the regions. • Comparison of incomes and assets across regions, between finance and other industry sectors.
Reduction in social impact washing/increase in social impact washing.	• Evidence that financial firms are changing, for good and bad, how financial products/services are marketed/branded.
Reduction in facilitation of tax avoidance and money laundering activities/increase in tax avoidance and money laundering.	• Data from NCA and others such as RUSI.
OVERALL ASSESSMENT OF THE SOCIAL UTILITY OF FINANCE	

The performance framework and metrics: business and the real economy

High level outcome

Financial markets and services support the needs of the real economy and all types of business at national, regional, and local level. Financial market activities support sustainable, productive economic growth.

Specific outcomes	Possible measures and metrics
The market for business finance is competitive, financial products and services aimed at the business community are competitively and fairly priced/products and services are uncompetitive, exploitative, growth in	• Business (particularly SME/micro business) levels of satisfaction with finance. • Trends in prices and availability of financial services. • Amount and suitability of finance available to start ups. • Trends in structure of finance.

[74] See for example ESMA analysis of EU funds ESMA50-524821-3098_TRV_article_-_Impact_investing_-_Do_SDG_funds_fulfil_their_promises.pdf (europa.eu)

rent seeking behaviours and value extraction by dominant providers. Financial products and services are structured and designed to meet the needs of business finance, provided in the appropriate form (debt/equity)/not aligned with business needs. Innovation in the financial sector meets the changing needs of business/fails to meet changing needs, exposes businesses to risks.	• Evidence on loan terms and conditions aligned with the time horizons of businesses, lending facilities are flexible to accommodate changing business conditions or capital investment requirements • Evidence on market dominance.
The financial sector meets the needs of different sizes of business including new companies, SMEs, and micro businesses/focuses on large corporates and other financial activities to the detriment of smaller business	• Trends in prices and availability of finance provided to SMEs and micro business. • Terms and conditions in financial products and services are supportive of SME and micro business needs.
Financial sector treats businesses especially SMEs and micro businesses fairly, honestly, and with integrity/ treats businesses unfairly and with lack of integrity Financial institutions treat businesses sympathetically when businesses are facing difficult conditions/treat businesses unsympathetically. The financial regulators do enough to protect businesses from harmful financial practices.	• Use of personal guarantees in provision of finance. • Trends in loan rejection rates. • Trends in foreclosure and forbearance. • Trends in closing of small business accounts. • Evidence of fair treatment of SMEs and micro businesses in ESG policies. • Data on how financial firms handle complaints from SMEs and micro businesses.
The financial sector meets the diverse needs of different types of business model such as community based, for-profit, non-profit, hybrid models not just conventional business models/fails to meet the needs of diverse business models	• Trends in financing different types of business.
The financial sector meets the needs of business at national, regional, and local level/fails to meet the needs of regional and local businesses, overly focused on London, South East and other major centres	• Trends in national, regional, local level lending
The financial sector promotes diversity and inclusion within finance itself and supports diversity and inclusion in the real economy/fails to comply internally with expectations on diversity and inclusion, and promote diversity and inclusion in corporate sector	• Data on diversity and inclusion. • Data on the ‘S’ part of ESG.
Finance supports real economy activities, and a well-balanced	• Evidence of share of GVA accounted for by financial activities, share of finance and lending

economy/finance crowds out real economy activities, creates economic imbalances, overreliance on finance, finances speculative activities, creates asset price bubbles	allocated to real economy activities and financial activities.
The financial sector makes a net positive contribution to the UK economy, evidence of financial value added/makes net negative contribution	• Assessment of headline positive contribution and overall negative contributions.
Financial activities support R&D, innovation, and economic productivity/ financial short termism undermines business sector productivity and sustainable long term economic growth.	• Trends in investment time horizons, evidence of reduction in short termism. • Investment in R&D, growth in risk capital.
The financial sector contributes to economic regeneration and reduction in regional inequality/exacerbates regional imbalances. The financial sector contributes to rising living standards, sustainable employment, quality of work/ exacerbates disparity in incomes.	• Evidence of financial institution commitment to the regions. • Comparison of incomes and assets across regions, between finance and other industry sectors.
A stable and resilient financial system supports wider economic stability and resilience/financial activities and systemic failures cause harm to real economic growth and resilience, household living standards.	• Incidences of systemic failures
Overall assessment of the economic utility of finance	

As mentioned, the intention is that this performance framework, outcomes, and metrics would allow for the production of a regular flagship State of Finance Report and the basis of any subsequent monitoring and periodic reporting. The structure would also allow for specific reports and deep dives on how well:

- the finance sector overall meets the needs of each category of interest such as consumers and households, and small business and regional economies; and
- each of the main financial services sectors such as banking, lending and credit, insurance, investment, pensions serve our interests with specific performance scorecards for each sector.

Data availability and gaps

There is a good deal of data on financial markets available from various sources. But, it is not collected, analysed, and held in a central place or presented in a coherent performance framework by policymakers and regulators.

One particular problem is that while snapshots or one off reports are available, there is a limited amount of longitudinal data making it difficult to analyse changes over time. The means that any comprehensive performance framework would need metrics and data relating to activities within *and* outside the regulators' remits. It would require two categories of data:

1. **Data relating to regulators' existing objectives and remits**
   a. Data and information already produced by the regulators.
   b. Additional data and information that regulators could and should produce to improve reporting and accountability with regards to their existing statutory objectives and other relevant duties. Remember, regulators are now under pressure to report additional performance information in relation to the new secondary growth and competitiveness objective – we argue they should also be pressured to enhance reporting from the perspective of consumers, real economy firms, and the environment.

2. **External or new research and data**
   a. Synthesis of existing research and data
   b. Commissioning of new research and analysis

Conclusion and next steps

As mentioned, a core part of the Financial Inclusion Centre's mission is to promote a financial system and markets that work for the real economy, environment, and society. The finance sector makes a significant contribution in its own right to the UK economy. The way the sector functions is critical to long term economic sustainability, as the 2008 financial crisis demonstrated all too painfully. Financial market activities affect, for good and bad, the delivery of key public policy objectives such as the green transition, and tackling inequality, exclusion and discrimination.

The Government now intends for the City to play a central role in the UK's economic future and government national economic strategy. The main financial regulators are now required to promote the growth and competitiveness of the finance sector.

It is surely reasonable to presume that given the central role the City will play in the UK's economic future Parliament, the Government, regulators, and other key stakeholders should be in a position to evaluate whether the finance sector is working in our interests. Unfortunately, this is not the case. The key message of this report is that it is not actually possible to tell how well finance serves the interests of the real economy, environment, and society.

There is some information available. Of course, the industry trade bodies and consulting industry produce regular reports on the contribution the City makes to the UK. Regulators and civil society do produce some limited research on certain aspects of the finance sector.

This falls well short of a comprehensive, objective performance framework and metrics that provides a more holistic evaluation to counter the partial reports produced by the various industry trade bodies.

Reports which highlight the contribution of the sector in terms of share of GDP and tax revenue, jobs created, or levels of financial activity tell one side of the story. Without an assessment of the harm caused by finance, the level of value extraction, financial market short termism, and the *quality* and *efficiency* of finance in supporting public policy goals relying on industry trade body reports produces a misleading 'balance sheet' of the City's contribution to the real economy, environment, and social issues.

We hope this proposed framework will support the production of a regular State of Finance Report which would provide a public interest audit of finance to challenge partisan industry reports. Developing such a framework would undoubtedly present a challenge but one that must be worthwhile. Producing such an audit or performance report is certainly do-able.

It is surely undesirable that we are so poorly informed about the performance of such a critical sector that has so much influence over the economy, environment, society, and our overall financial and economic wellbeing. We should be able to tell how well finance is working for us, and how well the main regulators are working for us.

We make the following recommendations:

1. HM Treasury and the main financial regulators should convene a working party with civil society to recommend improvements to the data collected and published by the key regulators with respect to their existing statutory objectives.
2. The key regulators should use their resources to gather and publish more comprehensive data and evidence on the performance of the critical sector they regulate. This should be based on the performance outcomes and metrics set out above in the report and in Annex II.

3. These new performance metrics should form the basis of enhanced regulatory accountability in the form of regular reporting by the regulators and to Parliament, particularly the Treasury Committee, and the public.
4. Civil society organisations should collaborate on:
    a. producing new research on financial activities to fill the gaps in the current data;
    b. creating a new central repository of performance data and research on the finance sector; and
    c. publishing a regular State of Finance Report.

The Financial Inclusion Centre
January 2025

Annex I: methodology and views of experts

We wanted to gain an understanding of where many experts from a wide range of civil society organisations and across academia and campaigning stood in terms of the aims of this report and the longer-term project.

To that end, we conducted ten short interviews to gather views on finance and regulation all set in terms of the contribution (or indeed harm) to society, the broad economy, the environment generally and the energy transition specifically. The interviews were conducted with representatives from consumer organisations and charities, business trade bodies and trades unions, and organisations in the environmental and sustainability fields.

We were seeking views not just on the issues but also on whether these experts share our concerns. Most significantly, we sought views from these experts regarding effective and appropriate metrics for holding finance and financial services, and the regulators tasked with supervising the finance sector, to account.

To this end in this section of the report, we have set out to summarise these views (though non-attributed and designated by numbers) under the appropriate headings below. We then summarise the points with relevance to our proposed metrics with a brief section of links to relevant work and reports then cited by our experts.

We would also point out that the world doesn't divide into distinct categories and there may be some cross-over from our interviewees, who may cover several categories.

Indeed, they may appreciate more than most where the economy, society, the consumer interest and environment all have a bearing on each other.

Questions for consumer experts

1. How well do you think financial services industry serves the needs of consumers and households?
2. How do you judge whether the financial services industry serves the needs of consumers and households? Do you have a specific performance framework? Do you use any specific indicators e.g. consumer outcomes or consumer principles?
3. How effective do you think the financial regulators such as the FCA, the PRA, and TPR are at ensuring the financial services industry serves the needs of consumers and households?
4. Specifically, do you map any performance metrics onto the regulators' statutory objectives?
5. How well do you think the regulators balance serving the interests of consumers/ households and the financial services industry?
6. Looking at the new secondary competitiveness and growth objective given to the regulators, do you have any concerns?
7. Do you have any views on the specific metrics the government has set for the regulators?
8. We are proposing a new performance framework and set of metrics/ scorecard to evaluate how well the financial services industry and by extension the financial regulators are serving the needs of consumers and households. See attached. We would welcome your views. Have we missed anything?

Questions for Sustainability experts

1. How well do you think financial markets and services contribute to environmental and social goals?
2. How do you judge whether financial markets and services contributes to environmental and social goals? Do you have a performance framework? Do you use any specific metrics?
3. How effective do you think the financial regulators the FCA, the PRA, the FRC and TPR are at ensuring financial markets and services make a positive contribution to environmental and social goals?
4. Specifically, do you map any performance metrics onto the regulators' statutory objectives?
5. How well do you think the regulators balance serving the interests of the environment and social goals and the financial sector?
6. Looking at the new secondary competitiveness and growth objective given to the regulators, do you have any concerns that this will undermine the ability of regulators to drive change in the financial sector on environmental and social goals?
7. Do you have any views on the specific metrics the government has set for the regulators?
8. We are proposing a new performance framework and set of metrics/ scorecard to evaluate the contribution the finance sector makes to environmental and social goals and, by extension, how well the financial regulators are driving positive change. See attached. We would welcome your views. Have we missed anything?

Questions for experts on the economy and business

1. How well do you think the financial sector meets the needs of businesses in the real economy?
2. How aligned are the interests of the financial sector with the medium-to-long term interests of the UK economy?
3. How do you judge whether the financial sector meets the needs of the economy and business? Do you have a performance framework? Do you use any specific metrics?
4. How effective do you think the financial regulators (BoE, PRA, FCA and FRC are at ensuring the financial sector serves the interests of the real economy?
5. Specifically, do you map any performance metrics onto the regulators' statutory objectives?
6. How well do you think the regulators balance serving the interests of the financial sector and the economy and business?
7. Looking at the new secondary competitiveness and growth objective given to the regulators, do you have any concerns that regulators will come under pressure to prioritise the interests of the financial sector?

8. Do you have any views on the specific metrics the government has set for the regulators?

9. We are proposing a new performance framework and set of metrics/scorecard to evaluate how well the finance sector supports the needs of business and the real economy. See attached. We would welcome your views. Have we missed anything?

Summary of interviews

Interviews – economics and support for business

Our experts believe there is a strong prima facie case for the failure of finance to support business and employment, both in a general sense and, specifically, for those regions with less economic activity and more deprivation.

As expert one says: “Increasingly over the last 40 years, lending has been on pre-existing assets, particularly real estate. An increasingly small amount of the overall amount of credit is being provided to non-financial businesses, particularly to SMEs.”

This organisation has, in the past, suggested radical action such as requiring BoE term lending to be specifically earmarked for particular households, SMEs and for green projects.

Expert one adds: “The Bank could offer zero or negative real interest rates for green activities while keeping its main policy rate in positive territory. As an illustrative example, the Treasury and the Department for Business, Energy & Industrial Strategy (BEIS), representing the elected government, could advise the Bank to start by targeting energy efficiency retrofits, clean energy activities, electric vehicles, and charging stations; and lowering borrowing costs for households and SMEs.”

Expert eight says that around 80% of finance money goes to pre-existing assets, but if you are looking to set up a new business, only a fraction of the credit is allocated.

He says you can get some numbers on SMEs accessing finance, but he has seen no other significant figures, and it would be really useful to quantify.

Expert eight adds that there is a huge debt overhead and evidence of the financial sector extracting rent. He says finding the amount rent being extracted in terms of interest would be very useful. Indeed, there is “a simple and compelling argument that the system’s main product is debt.”

He says the NAO found a £20bn gap some years’ back. It would be good to see that updated.

Expert one says that at times campaigners may have concentrated their fire on regulators as they have mandates and goals (even if limited ones) on which they can be judged and challenged even in the recent context of a recalcitrant government which has lost focus in terms of levelling up and green issues.

He adds: “It's very important to have a regulator who's thinking: ‘What if those profits are causing an increase to instability, because of the climate transition risks or climate impact risks? Or what if they're going to cause long term harm to the planet and subsequently to the people of the UK and the world?’”

Expert two was a little less sceptical about the secondary mandate but preferred another version adding: “I could support a secondary mandate if, for instance, you swapped growth and international competitiveness for something like raising living standards in the transition”.

“Their primary mandate should still be what it is. And within that, they should try and seek to have this kind of outcomes-based assessment of whether the financial system is furthering these goals.”

Expert three adds: “Regulators need mandates that reflect the outcomes that we're trying to regulate for. Most of the current regulatory mandates assume that a competitive market delivers good outcomes. If you have integrity in the market and competition in the market, you will get good outcomes. And that's just not true.”

More specifically, this expert discussing the secondary mandate adds (at length) says: “That is definitely a conflict of interest for regulators and can be interpreted in problematic right ways. There are basically three problems. One is the regulator's interpretation, and that's different between the PRA and the FCA. {the PRA is okay).

“The second one is that it is a huge open window for the mainstream industry lobby. Because they're the ones obviously most influential in all regulation. They can say this is going to make us less competitive. And then the third is that it allowed the previous government to push regulators to use that objective to deregulate.”

Expert four raised the issue of not just of monopolistic tendencies within UK finance services, but a significant bias towards dominant companies within sectors. That included technology firms and supermarkets. However, even with a sector such as veterinary services, he noted that funding was being provided for the buying up of smaller businesses to create dominant players, even in such unexpected niches. He added that it was important to acknowledge the role of the Competition and Markets Authority in any thinking about making the economy fairer.

However, in the view of expert four, this tendency to support monopolies contributes to the overall failure of finance to do much other than lend to itself or to real estate. In turn, this could be seen as a factor in driving the financial crisis and further related to this, why it had hit the UK so hard and was so difficult to recover from when the UK was compared to peer nations.

He says: “The UK has a well-known productivity curse. A lot of the people think it is about Brexit, but it is about more than that. It is a curse relative to its peers. The financial services sector is a big part of the problem. It should be a utility supporting the rest of the economy, but it has become a profit centre in its own right. Instead of serving the UK, the UK is serving it.”

Expert ten adds: “The metrics are always ‘employment figures and the taxes that it brings in’ and neither of those are of direct benefit to individuals.”

Expert nine echoes this sentiment. He says: “We’ve had pretty stagnant GDP for a decade and half. There are poor policies for workers and but also factors to do with financial dislocation. Not enough lending the real economy and too much speculation versus production.”

He sees a broader issue almost at the level of overall philosophy.

“My view is that since the 1970s, financial institutions have come first. That is a bigger problem, but the financial system is a consequence of that philosophy.

“I guess the perception is that there is a lack of lending in the economy. That seems to indicate that the regulators are not doing their jobs or perhaps only in financial stability.”

Asked his view on the secondary objectives, he again sets it in a broader context and adds that “after the crisis the prescription was framed as a problem of competition from the start. There was a failure to come out of the global financial crisis in a constructive way for the economy. In a way, the financial sector has written their own ticket out of this.”

Consumer interests

Expert five from one of the major consumer organisations suggested that it could be argued that financial services served certain groups reasonably well. But crucially not those for whom access to many, if not all, financial services proves difficult.

There was some hope that the Consumer Duty regulation could bring improvements and the “prospect of things getting to a better equilibrium”, though with the important caveat that this organisation had found it difficult to pin the regulator to specifics about what success would look like.

Expert five did not feel as if the secondary objectives had contributed at all to an improved situation.

“There are trade-offs, but sometimes it feels as if, in the past, the FCA has been reluctant to flex its muscles to enforce its consumer protection objectives. Interventions are smaller so that they won’t have any negative competition impacts. Sometimes they need to go and say: “You know what, we’ll cap fees for this.” To be fair they did it in short terms loans, but it took a while. Perhaps the Consumer Duty will shift that balance,” he says.

On the secondary objective, he adds: “We feel [the secondary competitiveness objective] will almost inevitably lead to a reduction in efforts to protect consumers and it could stymie interventions.

“It feels like a stick for the industry to beat the FCA with to stop them pushing the consumer interest too strongly. To us, it is like a distraction.”

Expert eight notes that there was a calculation from the BoE about Solvency II suggesting it could make it more an insurer crisis more likely and yet, it is hard to calculate the actual cost of all this.

“I do worry that explaining to a person in the street about this objective is so difficult. It is after the crisis. Only then do you know the cost.”

Social obligations

Some of the experts involved in the project target specific areas of finance and indeed the design of products and services in terms of critiquing where unfairness may be designed in and how it can be designed out.

This is also of growing concern in terms of the long-established transfer of risk from government and, to a degree, from companies on to individuals in terms of pensions, savings and indeed through the choice agenda in other areas of public services.

This has left the UK with the following situation.

Expert five says: “On the social and inclusion side, we have an amoral market that makes moral decisions about who gets what at what price and a lack of proper intervention to ensure that markets work for people.”

The difficulty, he says, is for those citizens who go to the market but who the market will not then serve, where do they turn?

“If you are a good citizen and go to the market, what if the market doesn’t want you? That is where you start to fall through. You are either charged more or are excluded,” he adds.

Essentially, much of the work of this organisation is to design out the ‘poverty premium’ from insurance and banking at least partly by identifying and measuring its impact.

He does see a huge disparity between those campaigning for the use of social levers – with a message that recently has not been cutting through at all – and the huge weight of the financial lobby.

Interestingly, expert five says those seeking change both inside and outside the regulators are often challenged on the basis of what data they can provide to support their assertions. This, again, gives an advantage to the finance lobby in its various guises, which simply has more resource and thus firepower.

Energy transition/environment

Within this mix of interviewees some take a domestic and others an international perspective.

Expert six saw issues with the fact that while you can see investment visibly going to the transition, it can amount to 2% of total investment in Europe.

In terms of regulation, this expert was worried about backsliding before any progress could be measured: “We should be measuring how well regulators say they are doing on avoiding harm and on the transition but, in our eyes, there is a lack and loss of ambition in terms of what they are trying to achieve. In the EU, people are now saying we regulated too much and need to focus on security and competition, but there are so many goals that we haven’t done enough work on.”

She also has worries about what she termed the hyper-financialisation of finance and its resulting short-sightedness.

She adds: “There’s been a hyper-financialisation of public goods and basic infrastructure. We need investment, but you can’t rely on private investment.”

Looking at mitigation against climate change, she says “there is no profit in that in a short-sighted sense, but long term you are saving a lot of money. You could say the same about lower income, non-profit motivated lending”.

She adds: “Every dollar that you support now, that is less money that you have to spend in the future. Otherwise, you will spend more cleaning up the mess which you didn’t address early on.”

Expert eight says: “Finance isn’t helping the UK meet net zero 2050.”

Expert two quoted mostly in the economics section above believes that it may be possible to set a mandate for the BoE or the Office for National Statistics to estimate investment gaps sector by sector which would at least identify the scale of challenge.

Expert seven from one of the campaigning organisations suggested that with a lot of harmful activity being driven by the financial industry – the interface between that harm and the lack of awareness among the public is his organisation’s focus.

A recent climate report on pension providers had shown most conventional pension providers scoring poorly.

He notes that in pensions there is a lot of talk of investing in climate change technology, but often he hears industry discussions suggesting the government needs an economic roadmap for net zero before they can invest effectively.

He wants regulators to focus on potential fiduciary failures by finance not taking climate change seriously enough.

In terms of the competitiveness and growth agenda, fundamentally, expert seven says there is no problem with that, but adds that: “a productive economy that is net zero aligned is brilliant, growth not aligned to the transition is not good. That is a very big caveat we would add”.

In terms of banks, he says if a bank in one year invests £100m investment into oil and gas and then cuts to £50m the next year, “they could say they have halved their emissions”.

"But if that £50m finances projects aligned to 3 or 4 degrees. That is a nonsense."

He sees parallels with pensions.

Finally, he says that there is a strong sense that stewardship needs to step up if it is to have an increasing bearing on driving the transition.

Expert three adds: "Anything that expands the production of fossil fuels is not compatible with what the IEA says is needed."

Expert eight sees the current regulatory objectives as a big problem with the aim of making regulation as cheap as possible with talk of the regulatory burden often the main focus, one which brings an interesting cross-over with the consumer and environmental interest as well. The argument is that the endeavour to make the system serve consumers and the environment will make financial companies less competitive with other jurisdictions. That is a huge barrier, he adds.

He also suggests that we have a $6trillion green investment gap.

He says: "These gaps are problematical and difficult to measure. There are even problems with businesses being confident enough to ask for the finance. But a lot of studies do seem to overemphasise the degree to which some needs are being met."

Expert ten says that in the last green finance strategy, there was discussion about KPIs for measuring a net zero-aligned financial centre in terms of employment and expertise. On a pure financial sector basis, he says the key remains achieving financial flows going to sustainable activities, and indeed, not going to fossil fuels.

But he also emphasises the need to include biodiversity while acknowledging the relative difficulty of coming up with appropriate measures.

He says his organisation has also worked on a "nature-positive economy roadmap."

But he adds: "Biodiversity is difficult. It can be local. A universal measure is difficult to get. It is not like a tonne of carbon."

More generally expert ten says: "It can feel as if it is separate from say money laundering or terrorism financing which are not left to the market, as they are inherently bad. For sustainability and nature, it may not be as tangible. But we can see a tree not being there. Biodiversity is falling."

He concludes that there is too much reliance on disclosure, but a new government may change things.

Metrics – suggestions

Economy

A mandated report on lending to the real economy using the BoE data would be very useful especially if comparable to peer countries. Likewise, a similar G7 survey would be very useful.

Funding for Lending could be mandated for transition and small business and measured.

A measure of what is going into productive assets would seem to be aligned with the ambitions of the Labour administration.

Interest in seeing the 'MacMillan gap' discussed and revived (from the 1930s) which was concerned with investment in the real economy.

It was asked was it possible to find a measure 'rent' extracted by the City from the real economy?

The national accounts do break things down in terms of insurance, asset managers, banks. A measure of those relative to the economy would be useful, as would asking firms do they get what they want when they go to bank.

BoE data needs broken down in more useful ways than it is at present was a repeated question

Consumers/Social

There were concerns that there are no specific metrics identified by the FCA for measuring the success of the Consumer Duty.

A need to examine both ways in which people can be lured into over indebtedness and strength of safety net if they end up in such a situation.

A failure to win a have regard for financial inclusion.

Importance of incorporating lived experience of consumers especially on social and social exclusion. Can that be a metric?

There was challenge to the suggested metric on financial literacy with the suggestion it might be better to measure whether products are understandable.

It was noted that the Competition and Markets Authority had done some work around poverty premiums but had dropped it. Could it be revived in some form across government?

Environmental

Stock and flow analysis will be important in measuring green investment and holdings.

Investment gaps for transition to be identified by the ONS or other institutions involving and enabling detailed sectoral analysis.

The FCA and CMA should investigate the lack of prominence of sustainability in bank plans.

Should there be more focus on transition plans rather than simple disclosure of holdings as at present.

Pension industry must get to grips with biodiversity measures.

Look at climate risk models from the University of Exeter and the Institute of Actuaries and map on to what is happening with pension funds.

The Financial Markets Law Commission has put out a document examining the need to consider climate risk as a systemic risk.

Questions about qualifications of decision makers in pensions i.e. pension trustees to understand the advice they were being given.

Use of the International Energy Agency as a source for measuring on climate

Need for a measure for how much polluting activity has moved to shadow banks

General

Concerns that for some suggested FIC outcomes, it needs more than data, but also an analysis of the context.

Strong suggestions for taxonomy-aligned metrics, that may depend on composition of taxonomies and indeed of the relevant taxonomies being completed.

Strong suggestion from one expert that we measure outcomes and – perhaps not processes.

Suggestion that integrity rather than falling under social may merit a separate category covering tax, money laundering and economic crime.

Who we spoke to

The Balanced Economy Project

Fair by Design

The Finance Innovation Lab

Finance Watch

Make My Money Matter

The New Economics Foundation

Positive Money

TUC

Which?

WWF

Annex II: Detailed performance framework and metrics

This Annex contains the detailed outcomes and metrics for each of the key sectors we think finance should be serving.

For each sector, we articulate what we think the high-level outcomes for each sector. This is then converted into a series of outcome statements which would allow civil society to evaluate how well finance is meeting the needs of that particular sector.

We have to be able to measure, as far as is practical, whether those outcomes are being delivered. So, there is a set of possible metrics which could be applied to each of those outcome statements. Each of the tables also contains potential sources for the metrics and supporting evidence; and indicates where new research might need to be commissioned.

There is actually a good deal of data available from various sources. But, it is not collected, analysed, and held in a central place presented in a proper performance framework.

A key problem here is that not of all the available data is longitudinal so it could be difficult analysing changes over time.

Nevertheless, the framework we present here would allow for a much better overall assessment of the performance of the financial sector in an Alternative State of the Financial Sector Report using a combination of tracking studies, one-off analyses, and qualitative assessments.

Of course, in some areas there are major gaps so new research and analysis and/ or expert interviews would need to be commissioned and analysed.

To provide an overall assessment in each of the categories, we propose that a panel of relevant experts be convened to evaluate the available data and evidence. The conclusions of these panels would form the core of the Alternative State of the Financial Sector Report and potentially any subsequent periodic reports.

Performance framework and metrics: consumers and households

High level outcomes

- The financial sector provides access to socially useful, genuinely innovative, affordable, value for money, trustworthy products and services that meet needs and enhance welfare of communities/ citizens/consumers.
- The financial sector behaves with integrity and treats consumers fairly.
- The financial sector supports social goals such as financial and social inclusion, and building financial resilience.
- Finance-related tech/data is used for social good.

Specific outcomes	**Possible metrics**	**Data and evidence availability**
Products and services are accessible and inclusive/evidence of high levels of financial exclusion and discrimination, difficulties accessing products and services	• % of consumers who currently hold financial products • Product ownership by income, gender, ethnicity etc • Digital inclusion/exclusion rates • Rejection rates on different products • Consumers understand products and services, terminology isn't a barrier to inclusion as measured by surveys	FCA Financial Lives tracking studies Regular surveys on access to and holdings of products
Products and services help consumers meet their core financial needs, help build resilience, enhance overall wellbeing (social useful)/ fail to help meet needs and enhance overall wellbeing (socially useless)	• Savings ratios amongst different consumer groups • % with savings cushion • % of consumers who currently hold financial products • Product ownership by income, gender, ethnicity etc • Balance of debt-savings amongst different consumer groups • Pension adequacy amongst different groups • Levels of assets amongst different groups	FCA Financial Lives ONS, FRS, BoE data Academic studies
Products and services are affordable/are costly, consumers priced out of the market	• Surveys tracking % of consumers who say products and services are affordable • Pricing trends • Evidence of the poverty premium in financial services	FCA Financial Lives BoE research on changes in charges for overdrafts, mortgages, savings rates, margins etc Studies of charges on investment funds, performance of investment funds Charges on insurance premiums/claims payout ratios

Products and services provide good value for money/are expensive for what they deliver	• % of consumers who say products and services offer good value for money • % of consumers complaining about financial services • Comparison of charges and fees of dominant providers • Trends in charges and costs • Value for money comparisons for investments and pensions (investment performance net of fees) • Investment fund performance against benchmarks • Claims performance on insurance products • Net margins on mortgage and consumer credit products, savings/ loans margins	FCA Financial Lives FOS data BoE BankStats for savings, mortgages, and consumer credit products Moneyfacts data Synthesis of desk research Commissioned state of the sector/ pulse surveys
Financial products and services are genuinely innovative and enhance consumer welfare/ spurious choice, welfare damaging products and services	• Evidence on usage of products such as buy now, pay day lending, sub prime lending • Evidence of new business models, flexible products which adapt to consumers' needs and lifestyles • Regular stakeholder expert surveys to gauge opinions on how well products are meeting needs of consumers	Synthesis of desk research Commissioned state of the sector/pulse surveys with experts
AI, data, tech used for social good/ exacerbates exclusion, discrimination, and behavioural manipulation	• Synthesis of research on practices and impacts of AI, tech, data on financial services and consumers • Regular stakeholder expert surveys to gauge opinions on how well products are meeting needs of consumers	Tracking studies on consumer confidence Data/evidence on misselling
Financial products and services are safe, consumers protected from fraud and scams/ victims of scams and fraud, exposed to risky products and contracts	• Surveys and research on numbers of consumers exposed to/ victims of scams and fraud • Industry data on business flows into high risk investment/pension products	FSCS, CIFAS, ActionFraud data Data/evidence on misselling Violation Tracker Surveys on misselling Complaints data FCA thematic studies
Consumers have justified trust and confidence in financial institutions, products, and services/ consumers lose trust and confidence	• % of consumers who have trust and confidence in financial services • Trends in complaints and misselling • Trends in fraud, scams, firm failure	Surveys on misselling FOS market, sectoral, firm complaints data FCA thematic studies
Consumers are treated fairly, firms comply with	• % of consumers who have trust and confidence in financial services	FCA Financial Lives

Consumer Duty/treated unfairly, Consumer Duty has limited impact	• Trends in complaints and misselling • Evidence on impact of the Consumer Duty	FOS market, sectoral, firm complaints data FCA thematic studies Synthesis of desk research
Financial institutions are trustworthy and operate with integrity/are untrustworthy and behave unethically	• Research on levels of misselling • Impact of Consumer Duty on complaints to FOS • Data on scams and frauds • Data on money laundering and fraud enabled by UK financial sector	FOS data FCA thematic studies CIFAS, ActionFraud data Data/ evidence on misselling Violation Tracker Data from NCA and RUSI Surveys on misselling Synthesis of desk research
Financial products and services are understandable and easy to engage with/are unnecessarily complex, poorly understood	• Data and research on levels of financial capability and literacy • Data and research on digital capability and literacy	FOS data FCA Financial Lives Synthesis of existing civil society research
Consumers have access to appropriate redress/ are denied access to redress	• Surveys on attitudes to FOS • Comparative analysis of evidence of misselling/fraud with numbers getting redress	FOS, FCA data Synthesis of existing civil society research
Financial system is stable and resilient, institutions are secure/financial instability, systemic crises, high levels of financial institutions failing	• Data on number of firms failing • Calls on the FSCS	Band of England/PRA, FCA, TPR, FSCS data
Financial services are well regulated/ poorly regulated	• Data on enforcement cases • Impact of Consumer Duty • Comparative analysis of evidence of market failure with enforcement	BoE/PRA, FCA, TPR, FSCS data Violation Tracker data Synthesis of existing civil society research
Overall assessment of utility of finance for consumers – undertaken by expert panel assessment of above factors		**Overall synthesis of desk research complemented by new survey with consumers and civil society experts**

Performance framework and metrics: sustainability – environment

High level outcomes

Financial market activities are aligned with net zero and wider environmental goals. The financial system is resilient to climate risks.

Specific outcomes	**Possible measures and metrics**	**Data and evidence availability**
An increase in finance allocated to economic	• Improvement in financial institution's 'greenness ratios'.[75]	Corporate Adviser analysis.

[75] Eg. esma50-165-2329 trv trv article - eu ecolabel calibrating green criteria for retail funds.pdf (europa.eu)

activities which support climate and wider environmental goals (includes biodiversity)/ insufficient levels of finance allocated to climate and environmentally positive activities	• Evidence of improvement in number of financial institutions with climate management plans. • Data on fossil fuel financing • Data on economic activities which harm nature • Number and value of investment funds signed up to FCA's sustainable investment label and complying with meaningful standards.	Make your Money Matter analysis. ShareAction analysis. FCA data. But may need new resource to develop time series analysis and subscribe to analysts' reports.
Economic activities which cause climate and wider environmental harms are de-funded/ harmful activities continue to be funded Overall, improvement in the ratio of climate positive- damaging finance/ no improvement or reversal in ratio	• Evidence of disinvestment from environmentally harming activities. • Trends in portfolio emissions data at loan book, investment fund, insurance company, pension fund level.	Synthesis of industry reports. Expert interviews/surveys. But may need new resource to develop time series analysis and subscribe to analysts' reports.
An increase in the most **cost effective** form of finance allocated to green infrastructure to reduce the cost of net zero transition/ expensive short term private finance pushes up cost of funding net zero	• Evidence of growth in investment/ financing of sustainable energy generation • Analysis of the source, cost, and terms of finance committed	Synthesis of civil society/ industry reports But may need new resource to develop time series analysis and subscribe to analysts' reports.
Quality of financial institutions' transition plans improve/ reduction in quality and accessibility of plans	• Trends in data on financial institution compliance with TCFD/ ISSB disclosure and reporting standards. • Qualitative assessment of transition plans.	Synthesis of civil society/ industry reports. Assessment of published reports by FCA, TPR, FRC. Expert interviews/surveys. But may need new resource to develop time series analysis and subscribe to analysts' reports.
Greater transparency and meaningful reporting on financial institutions environmental impact and performance/ reversals in compliance with standards	• Trends in financial institution compliance with TCFD/ ISSB disclosure and reporting standards. • Qualitative assessment of transition plans.	Synthesis of civil society/ industry reports. Interviews with experts. But may need new resource to develop time series analysis and subscribe to analysts' reports.

Quality of corporate sector transition plans improve/ reduction in quality and accessibility of plans	• Trends in data on corporate compliance with TCFD/ISSB disclosure and reporting standards. • Qualitative assessment of transition plans.	Synthesis of civil society/ industry reports. Analysis of data on corporate compliance with TCFD/ISSB disclosure and reporting standards. Expert views/ surveys.
Greater transparency and meaningful reporting on corporate environmental impact and performance/ reversals in compliance with standards	• Trends in data on corporate compliance with TCFD/ISSB disclosure and reporting standards. • Qualitative assessment of transition plans.	Analysis of data on corporate compliance with TCFD/ISSB disclosure and reporting standards. Assessment of reports, expert views.
UK is a trustworthy global centre of green finance operating to the highest regulatory standards/UK competes on lowering standards	• UK financial markets score well against international peers on green finance standards. • Improvement in regulatory standards via expert assessment.	Based on assessment of reports and expert views/ surveys.
UK behaves as a responsible global corporate citizen by promoting consistently high international regulatory standards/ UK encourages regulatory arbitrage	• Improvement in UK regulatory standards relating to climate finance. • UK regulatory standards meet expectations of civil society organisations. • UK promotes highest global regulatory standards in international standards setting fora.	Assessment of reports, and expert views/surveys.
UK attracts green finance that complies with meaningful environmental standards/attracts finance that does not comply with high standards.	• Evidence of climate positive listings on UK markets. • Evidence of green financial products launched in UK.	FCA, London Stock Exchange, FRC data.
UK reduces exports of climate damaging finance/ continues to finance climate harming activities	• Evidence of disinvestment from environmentally harming overseas activities. • Reduction in bank financing, insurance/reinsurance of climate harming overseas activities.	Analysis of UK institutional asset allocation. Portfolio emissions data at loan book, investment fund, insurance company, pension fund level. Corporate Adviser analysis. Make your Money Matter analysis. ShareAction analysis. FCA data. But may need new resource to develop time series

		analysis and to subscribe to analysts' reports.
Greenwashing is reduced/ enabled or increases	• FCA reporting reductions in greenwashing. • Reduction in misleading advertisements and promotions.	FCA supervision and enforcement data. Advertising Standards Authority (ASA) monitoring/ reports. Assessment of reports, expert views.
Social impact washing is reduced/ enabled or increases	• FCA reporting reductions in greenwashing. • Reduction in misleading advertisements and promotions.	FCA supervision and enforcement data. Advertising Standards Authority (ASA) monitoring/ reports. Assessment of reports, expert views.
Financial system is more resilient to climate risk/ continues to be exposed to climate risks	• Evidence of UK financial regulators enhancing climate related policies. • Stress testing analysis. • Monitoring of climate related losses.	BoE climate stress testing Climate Biennial Exploratory Scenario (CBES) Expert views of the CBES
Overall assessment of utility of finance for the environment – undertaken by expert panel assessment of above factors		**Overall synthesis of desk research complemented by new survey with consumers and civil society experts, plus portfolio analysis.**

Performance framework and metrics: sustainability – social

High level outcome

Financial markets make a positive contribution to tackling social harms such as poverty, inequality, exclusion, ill health, and crime; and improving standards of corporate behaviours on social issues such as diversity and inclusion, human rights, fair wages, ethnicity and gender pay gaps.

Specific outcomes	Possible measures and metrics	Data and evidence availability
An increase in finance aligned to social goals/ misaligned with social goals	• Evidence of increase in UK financial institutions aligned to the UN Sustainable Development Goals (SDGs) or equivalent.[76]	Evidence from loan books, investment, insurance and pension fund portfolios. ShareAction reports.
Financial institutions drive positive behavioural change with regards to social issues in the	• Growth in corporations complying with high standards on labour market issues eg. ILO standards, paying the Real Living Wage.	Government and other organisational data on wage, gender pay gaps, ethnicity pay gaps, diversity and inclusion in the work place.

[76] See for example ESMA analysis of EU funds ESMA50-524821-3098_TRV_article_-_Impact_investing_-_Do_SDG_funds_fulfil_their_promises.pdf (europa.eu)

corporate sector/ negative behaviours	• Reduction in sales and marketing of harmful products and foodstuffs.	Data from government departments and other sectoral regulators (eg. Food Standards Agency).
Increase in genuine social impact finance/finance extracting value from social sector assets	• Increase in support provided by financial institutions to organisations engaged in tackling issues such as financial and social exclusion *on below market terms*. • Evidence that rent seeking activity diminishing.	Assessment of surveys such as those from the Impact Investment Institute. Potential development of new impact finance monitor and tracker.
Finance has a positive impact on regional, asset, and income inequality/ financialisation contributes to asset and income inequality, intra and intergenerational inequality.	• Evidence of financial institution commitment to the regions. • Comparison of incomes and assets across regions, between finance and other industry sectors.	BoE data on regional financing. ONS and other government data on household finances. Synthesis of academic and other studies.
Reduction in social impact washing/increase in social impact washing.	• Evidence that financial firms are changing, for good and bad, how financial products/services are marketed/ branded.	Data on asset allocation to social sector assets eg. investment in 'affordable' housing, care homes etc. May need new monitoring resource, subscription to industry reports, additional analysis.
Reduction in facilitation of tax avoidance and money laundering activities/ increase in tax avoidance and money laundering.	• Data on estimates of tax avoidance, money laundering.	NCA, RUSI, Tax Justice and others. Assessment of published reports, expert views.
Overall assessment of utility of finance on social issues – undertaken by expert panel assessment of above factors		**Overall synthesis of desk research complemented by new survey with civil society experts, plus new analysis.**

The performance framework and metrics: business and the real economy

High level outcome

Financial markets and services support the needs of the real economy and all types of legitimate and ethical business at national, regional, and local level. Financial market activities support sustainable, productive economic growth, and improved living standards.

Specific outcomes	Possible measures and metrics	Data and evidence availability
The market for business finance is competitive, financial products and services aimed at the business community are competitively and fairly priced/ products and services are uncompetitive, exploitative, growth in rent seeking behaviours and value extraction by dominant providers. Financial products and services are structured and designed to meet the needs of business finance, provided in the appropriate form (debt/equity)/not aligned with business needs. Innovation in the financial sector meets the changing needs of business/fails to meet changing needs, exposes businesses to risks.	• Business (particularly SME/micro business) levels of satisfaction with finance. • Trends in prices and availability of financial services. • Amount and suitability of finance available to start ups. • Trends in structure of finance. • Evidence on loan terms and conditions aligned with the time horizons of businesses, lending facilities are flexible to accommodate changing business conditions or capital investment requirements • Evidence on market dominance.	BoE data on regional financing. BoE data on cost of finance. British Business Bank surveys. Industry studies. Academic studies.
The financial sector meets the needs of different sizes of business including new companies, SMEs, and micro businesses/focuses on large corporates and other financial activities to the detriment of smaller business	• Trends in prices and availability of finance provided to SMEs and micro business. • Terms and conditions in financial products and services are supportive of SME and micro business needs.	BoE data on regional financing. BoE data on cost of finance. British Business Bank surveys. Industry studies. Academic studies.
Financial sector treats businesses especially SMEs and micro businesses fairly, honestly, and with integrity/ treats businesses unfairly and with lack of integrity	• Use of personal guarantees in provision of finance. • Trends in loan rejection rates. • Trends in foreclosure and forbearance.	FCA and FOS data Published reports eg. TSC[77]

[77] New de-banking figures show more than 140,000 business accounts closed by major banks - Committees - UK Parliament

Financial institutions treat businesses sympathetically when businesses are facing difficult conditions/treat businesses unsympathetically. The financial regulators do enough to protect businesses from harmful financial practices.	• Trends in closing of small business accounts. • Evidence of fair treatment of SMEs and micro businesses in ESG policies. • Data on how financial firms handle complaints from SMEs and micro businesses.	
The financial sector meets the diverse needs of different types of business model such as community based, for-profit, non-profit, hybrid models not just conventional business models/fails to meet the needs of diverse business models	• Trends in financing different types of business.	Data from organisations such as Responsible Finance and ABCUL.
The financial sector meets the needs of business at national, regional, and local level/fails to meet the needs of regional and local businesses, overly focused on London, South East and other major centres	• Trends in national, regional, local level lending	BoE data on regional financing. BoE data on cost of finance. British Business Bank surveys. Industry studies. Academic studies.
The financial sector promotes diversity and inclusion within finance itself and supports diversity and inclusion in the real economy/fails to comply internally with expectations on diversity and inclusion, and promote diversity and inclusion in corporate sector	• Data on diversity and inclusion. • Data on the 'S' part of ESG.	FCA data on D&I in financial services.
Finance supports real economy activities, and a well balanced economy/finance crowds out real economy activities, creates economic imbalances, overreliance on finance, finances speculative activities, creates asset price bubbles	• Evidence of share of GVA accounted for by financial activities, share of finance and lending allocated to real economy activities and financial activities.	Analysis of positive and negative studies. Academic/ expert analysis and publications.
The financial sector makes a net positive contribution to the UK economy, evidence of financial value added/makes net negative contribution	• Assessment of headline positive contribution and overall negative contributions.	ONS and other government data.

Financial activities support R&D, innovation, and economic productivity/ financial short termism undermines business sector productivity and sustainable long term economic growth.	• Trends in investment time horizons, evidence of reduction in short termism. • Investment in R&D, growth in risk capital.	Government data BoE data on regional financing. Academic studies.
The financial sector contributes to economic regeneration and reduction in regional inequality/ exacerbates regional imbalances. The financial sector contributes to rising living standards, sustainable employment, quality of work/ exacerbates disparity in incomes.	• Evidence of financial institution commitment to the regions. • Comparison of incomes and assets across regions, between finance and other industry sectors.	BoE, FCA data
A stable and resilient financial system supports wider economic stability and resilience/ financial activities and systemic failures cause harm to real economic growth and resilience, household living standards.	• Incidences of systemic failures • Analysis of knock on effects on real economy	BoE/PRA, FCA, TPR, FSCS data. Academic and civil society studies.
Overall assessment of utility of finance for the economy and living standards – undertaken by expert panel assessment of above factors.		**Overall synthesis of desk research complemented by new survey with civil society experts, plus new analysis.**