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The good, the bad and the ugly:

Three challenges for financial services



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Budget week highlighted three main challenges that face the government and regulators in the financial sector as they emerge, blinking into the 2021 sunlight, from their pandemic bunkers. Financial regulation will not just be driven by the concerns of the FCA and other regulators but also strong political imperatives to improve UK competitiveness post-COVID and Brexit.

For good, the opportunities for innovation now need some green lights. Post Brexit, with its own set of halt signs, these have become especially urgent for the health of the City and the wider economy. The publication of the Hill review of listings was broadly welcomed by investors, as was the previous week's Kalifa Review on fintech, and the Budget announcement of changes to fast track visas – to the benefit of fintech.

But experience has taught us that all that glitters is not gold in fin tech and the job of spotting the winners, or at least avoiding the losers, will test the powers that be. And the tension between competitiveness and consumer protection imperatives became apparent as fintech executives warned that planned new FCA rules could stifle start-ups.

Against bad, the new sheriffs at the FCA will be resolved to root out the bad apples in their 50,000 firm flock. No doubt they will be debating how practical it is for any "police force" to prevent all bad things from happening

in such a large and diverse population, how to capture culprits more quickly, where investors' responsibility begins and ends, and whether the compensation safety net is appropriately strung out below.

Avoiding ugly is perhaps the greatest immediate challenge of all. Unwinding the many and various pandemic reliefs in harmony with the recovery of the economy and to the satisfaction of the general public will be some test. Payment holidays are on the front line. Unwind too fast and thousands of individuals and small businesses will feel abandoned just as salvation looms.

When the fog clears, it would be no bad thing to consider once again what affordable borrowing really means in practice before the great British consumers rediscover their credit cards in earnest. The FCA's recently finalised Vulnerability Guidance will help, but many consumers may be tempted to take on debt and choose products that may not be suitable as the economic fallout of COVID becomes clearer. And the new Parliamentary Inquiry into pension freedoms five years on may prompt a fundamental rethink of Conservative policy on pensions (and the market for advice and products), just as the Budget demonstrated a fundamental shift from Tory fiscal orthodoxy.

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