



Challenges facing the uk financial sector

October 2026

Executive Summary

- The financial services sector is one of the UK's greatest assets, contributing £208.2 billion to the economy in 2023.
- Prosper UK heard from those in the industry, including representatives from fintech, retail banking, investment banking, and industry trade bodies, about the obstacles to growth caused by rising costs, over-regulation and a shrinking talent pool.
- The recommendations from the roundtable sought to make the UK a more competitive destination for financial services investment and talent.

The financial services sector has historically been one of the UK's greatest assets, attracting high levels of international recruits and overseas investment drawn to its thriving prosperity. A report from the House of Commons Library estimated that in 2023, the financial and insurance services industry produced £208.2 billion for the UK economy, accounting for 8.8% of total economic output.

Despite this, there are increasing obstacles to growth which have been stifling the industry's competitiveness. The cost of employment has increased steeply with rising National Insurance Contributions and fees associated with Skilled Worker visa sponsorship. A culture of risk-aversion has developed since the 2008 global financial crisis, feeding into the regulatory environment. Investment opportunities have not been capitalised on within the retail or institutional markets. These challenges have pushed financial services businesses out of the UK to more attractive global players.

Prosper UK believes in pursuing growth opportunities for businesses to generate a stronger, more stable economy. We sat down with representatives from the financial industry on the 15th April 2026 to hear from those being affected the most by these systemic issues.

This report outlines the ideas and recommendations expressed at the roundtable in an effort to address the obstacles raised and guide legislation. The UK financial sector is such a vital part of the economy, it is essential that we consider how policy can support its position on a global scale.

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Recommendations

The recommendations below reflect the views and priorities expressed by housing businesses and experts who took part in Prosper UK's Financial Services roundtable.

- 1 Remove the 0.5% stamp duty on equity trading transactions.
- 2 Lower National Insurance Contributions and review Skilled Worker visa salary thresholds.
- 3 Reform non-domicile tax changes to retain globally mobile talent and capital.
- 4 Review the use of Section 166 powers by the Financial Conduct Authority.
- 5 Align the Financial Ombudsman Service's role with the FCA to prevent regulatory overlap.
- 6 Reduce disproportionate compliance costs while protecting retail consumers.
- 7 Simplify Individual Savings Account (ISA) rules to encourage investment.
- 8 Improve financial literacy with the assistance of AI-driven tools.
- 9 Strengthen collaboration between banks, telecommunications businesses and social media firms to tackle fraud.
- 10 Increase pension auto-enrolment from 8% to 12%, then assess whether further increases are needed.

Introduction

Historically, the financial services sector has been one of the UK's greatest economic assets and, in 2023, employed almost 1.1 million people.¹ The UK remains the global leader in net exports of financial services and, in 2024, yielded a trade surplus of £96 billion.²

Yet in recent years a combination of global structural shifts and regulatory changes following the 2008 global financial crisis have eroded its competitiveness. Figures from the Office for National Statistics suggest that the UK's financial industry output remains affected by the global financial crisis, with the sector shrinking by 6.5% despite growth of over a quarter in non-financial areas of the economy since 2010.³ This is evident in the downturn of productivity within financial services, which in 2024 saw output per worker falling to 55% of the global frontier compared to a pre-2008 level of 80%.⁴

Businesses need to feel confident to invest in UK financial services, boosting economic growth as a result. Prosper UK sat down in London with experts from the industry to discuss the challenges they are currently facing, as well as potential solutions for these issues.



1. TheCityUK, 'Key facts about UK-based financial and related professional services 2025', (29 May 2025) <<https://www.thecityuk.com/our-work/key-facts-about-uk-based-financial-and-related-professional-services-2025/>>

2. TheCityUK, 'UK retains world-leading financial services trade surplus and global hub status', (15 January 2026) <<https://www.thecityuk.com/news/uk-retains-world-leading-financial-services-trade-surplus-and-global-hub-status/>>

3. Martin C W Walker, 'LSE Business Review: UK financial services face deep challenges', (LSE, 13 August 2025) <<https://blogs.lse.ac.uk/businessreview/2025/08/13/uk-financial-services-face-deep-challenges/>>

4. Saurabh Tripathi et al., 'The UK Financial Services Sector Has Lost Its Edge—Here's How to Win It Back', (BCG, 25 May 2026) <<https://www.bcg.com/united-kingdom/centre-for-growth/insights/the-uk-financial-services-sector-has-lost-its-edge-heres-how-to-win-it-back>>

Tax, Costs and Competitiveness

One of the key concerns raised at the roundtable was that companies are deterred from investing in the UK because the overall cost of operation is too high. Several contributing factors were raised in connection to this, such as tax levels, employment costs and regulatory burdens, which stifle investment as foreign companies seek cheaper options elsewhere.

Stamp duty on equity trading was highlighted by participants as a cost which makes the UK a less attractive destination for investment. Currently share purchases for UK-incorporated or UK-registered companies incur a 0.5% tax based on the purchase price.⁵ One participant highlighted Sweden as a comparative case study when looking at stamp duty on equity trading. Sweden was facing parallel challenges to the UK, prompting government-led changes that reformed the pension system, introduced a simplified Investment Savings Account, and, in 1991, abolished the tax on stock transactions.⁶ As a result, equity holdings increased from 32% to 50% (2002-2021), and the number of IPOs rose to 500 in the past decade.⁷ Participants recognised that stamp duty on equity transactions was not the only cost facing potential investors, but felt that a similar approach of incremental and consistent changes should be employed in the UK to drive down the cost of investment and make the market more attractive to enter.

Several participants also cited national insurance contribution (NIC) increases as a concerning compounding cost for companies. They described how these NIC increases are creating obstacles to employing new talent, with some saying they are struggling to bring new people into their company due to the cost of employment. The rise in NICs increased employer payroll by just under 2%. Modelling by Oxford Economics on these increases suggested that employment in the UK labour market would be cut by 55,000, pay growth reduced by 0.2 percentage points, and unemployment raised by 0.2 percentage points.⁸ Attendees highlighted this as a factor which may be stifling the growth of companies in the financial sector.

Other influences which the participants felt were reducing the UK financial sector's competitiveness included changes to the non-domicile policy, impacting globally mobile people who may be important to hiring within firms. They also felt that frequent tax changes meant that companies were hesitant to commit to investment strategies due to the risk of their strategy being undermined. The 2025 Monetary Policy Report from the Bank of England reflected these concerns, suggesting that uncertainty from the Autumn Budget was causing firms to delay investment, while unpredictability levels were at their highest since the end of 2022.

5. GOV.UK, 'Tax when you buy shares', <<https://www.gov.uk/tax-buy-shares>>

6. Government Offices of Sweden, 'Sweden's capital markets journey', (Ministry of Finance, 3 April 2025) <<https://www.government.se/information-material/2025/04/swedens-capital-markets-journey/>>

7. TheCityUK, 'From cash to confidence: Building an investing nation', (19 November 2025) <<https://www.thecityuk.com/our-work/from-cash-to-confidence-building-an-investing-nation/>>

8. Oxford Economics, 'What the rise in NICs means for the UK labour market', (19 February 2025) <<https://www.oxfordeconomics.com/resource/what-the-rise-in-nics-means-for-the-uk-labour-market/>>

9. Bank of England, 'Monetary Policy Report - November 2025', (November 2025) <<https://www.bankofengland.co.uk/monetary-policy-report/2025/november-2025>>

“It’s not a political issue, it’s an outcomes issue.”

One attendee also flagged the increased salary threshold for Skilled Worker visas, as some firms are struggling to meet the threshold for junior employees. Coming from a firm with an office of 2,000 people in Glasgow, she highlighted that salary expectations may differ regionally and suggested that the government should review these geographic variations in the context of the salary thresholds. Skilled Worker visas issued to main applicants fell by 55% between Q2 2024 and Q1 2025.¹⁰ The decline followed Immigration Rule changes in April 2024, which increased the salary requirements and restricted eligible occupations, disproportionately impacting below-degree-level roles, which experienced the greatest decline. This speaks directly to the concerns raised by financial services firms about the rising cost of recruiting junior talent from overseas.

“We have foreign institutions leaving the UK because it’s become too expensive due to the operating cost: it’s tax, it’s employment, it’s regulation. These three things are strangling our businesses slowly.”



10. Dr Dora-Olivia Vicol et al., ‘Drop in Skilled Worker visas should not signal pivot to reliance on high-risk short-term work visas’, (Work Rights Centre, 22 May 2025) <<https://www.workrightscentre.org/publications/2025/drop-in-skilled-worker-visas-should-not-signal-pivot-to-reliance-on-high-risk-short-term-work-visas/>>

Regulatory Burden and Post-2008 Risk Aversion

There was broad agreement at the roundtable that post-2008 financial regulation was developed to prioritise risk aversion and resilience over economic growth. As a result, participants said this has become embedded in the UK's culture and is harming the financial sector's competitiveness. This is particularly stark in comparison to US and EU markets which experience looser regulation.

Attendees raised concerns about several regulating mechanisms. It was felt that Section 166 (s166) powers¹¹ were being used too liberally by the Financial Conduct Authority, causing disruption and major expenses for firms. Companies incurred an estimated aggregate cost of £38.3 million from s166 reviews in 2023/2024, averaging £460,000 per review.¹² There were concerns over a lack of internal expertise, causing regulators to rely on external investigators from the private sector. It was also raised that these s166 reviews can be difficult to appeal, highlighting an embedded and potentially very costly feature of regulation within the financial sector.

Similar sentiments were felt about the Financial Ombudsman Service, which attendees described as becoming a quasi-regulator. These concerns have also been reflected by the Treasury, which, in a 2025 review of the FOS, highlighted that changes were needed to prevent it from becoming a quasi-regulator and also to ensure coherence with the Financial Conduct Authority.

Representatives from the sector felt that transparency requirements were at times senseless, impacting upon the ability of businesses to operate effectively. One participant from the FinTech industry described being required to report every advocacy and lobbying meeting they held or planned to hold. This idea of stifling disclosure obligations in the financial sector is widely held, with surveys showing that 84% of respondents have seen their compliance costs increase, while 53% of respondents outside of the UK stated that regulatory compliance is higher in the UK compared to other jurisdictions.¹³

Alongside calls for regulatory reform, industry analysis suggests that reducing the cost of compliance is best approached as a collaborative effort between regulators and firms. A 2025 report by PwC and TheCityUK found that while regulatory simplification is essential, firms also have an opportunity to reduce costs by upgrading their compliance operating models, including through greater use of automation and AI.¹⁴ This is rather than compliance spend being channelled primarily towards remediation.

11. S166 (Section 166) powers: A statutory power under the Financial Services and Markets Act 2000 allowing the Financial Conduct Authority (or Prudential Regulation Authority) to require an authorised firm to commission a report from an independent "skilled person" on a specified area of its business. The regulator can either require the firm to appoint the skilled person or appoint one directly. The firm bears the cost of the review, and consent from the firm is not required, as the power is exercised unilaterally. It is a supervisory tool rather than a formal enforcement action, though findings can lead to one.

12. David Allinson, 'Use the (en)force(ment) - FCA enforcement data shows a sharp increase in s.166 reviews', (9 September 2024) <<https://www.rpclegal.com/thinking/professional-and-financial-risks/use-the-enforcement/>>

13. TheCityUK, 'Annual cost of regulatory compliance to UK financial services sector exceeds £33.9bn', (TheCityUK and PwC, 5 November 2025) <<https://www.thecityuk.com/news/annual-cost-of-regulatory-compliance-to-uk-financial-services-sector-exceeds-339bn/>>

14. TheCityUK in association with PwC, 'Reducing the cost of compliance: Unlocking efficiency, competitiveness and growth for the UK financial services sector', (November 2025) <<https://www.pwc.co.uk/financial-services/assets/pdf/reducing-cost-of-compliance.pdf>>

The report frames this as an enterprise-wide undertaking requiring strategic action at the executive level, alongside continued regulatory reform, rather than a responsibility that sits with either regulators or firms alone.

While roundtable attendees raised concerns over this overly burdensome regulatory environment, they were keen to distinguish between valuable retail consumer protection and regulation applied in professional financial markets that trade in the Fixed Income, Currencies, and Commodities (FICC), which need more scope to be competitive and pursue growth.

Overall, participants felt that these strong regulatory aspects have created a risk-averse culture in the aftermath of the global financial crisis. While its legacy has diminished over time, there is still not the necessary environment to enact significant changes. One participant emphasised that bravery is needed to enact changes which contradict the risk-averse culture that has developed since 2008.

“The conversation that we’re having around this room right now is not a conversation we would have been able to have as an industry five years ago because the spectre of the financial crisis was still there and we were all still recovering ourselves. Perception has changed, and things are possible now that were not possible five or ten years ago. But I think it does still need bravery and it does need cultural change, particularly with the regulators.”

Employment Costs and the Shrinking Talent Pool

A key emphasis was made by participants regarding the available talent pool in London. It was felt that historically, London's competitive success in the financial sector job market has relied on openness to foreign capital and talent. This has moved towards a less accessible environment which closes the UK off from the overseas skills market. Attendees linked this to the cost and complexity of bringing people into a company from abroad, which may cause institutions to relocate roles or leave the UK altogether. There was a strong desire by the roundtable to challenge the idea that immigration is a drain on the UK, and promote the cultural, social and economic benefits of having a global talent pool.

One reason provided for this shift by the participants was the increasing cost of sponsoring overseas employee visas, which is particularly impactful for junior roles when the costs are found to outweigh the benefits. One participant recounted how another major bank had chosen to base junior back-office roles in Portugal rather than the UK, as the cost of bringing in overseas talent was too high, a barrier they felt applied as much to Bournemouth or Brighton as to London.



The increasing costs were again highlighted by participants as an incentive for companies to move junior roles offshore and out of the UK economy. A study by Kimon Services found that 24% of companies interviewed were actively planning to offshore entry-level administrative and customer support roles in the coming 12 months, while 16% had already begun outsourcing parts of their operations following Employer NI increases.¹⁵ Additionally, 62% of the businesses surveyed were exploring outsourcing in admin roles to ensure business durability as a result of government-led rising employment costs.¹⁶ As the roundtable participants noted, it is not just the financial services skills market that loses out, but there is also a soft power loss as fewer junior people are entering the UK and building their lives here.

Employers referenced the increasing cost of sponsorship since leaving the European Union as one of the reasons for this trend in offshoring junior roles. Employers face several significant fees throughout the sponsoring process for Skilled Worker visas, including the sponsorship licence, which ranges between £611 and £1,682 depending on the size of the business and must be paid by the employer every four years.¹⁷ One attendee warned that if the financial sector is unable to recruit internationally, London risks losing its cultural and linguistic diversity that has historically set it apart. The ability to operate across global markets, as he put it, is 'uniquely our talent'.

“This consensus that all immigration is bad has got to be challenged.”

15. Thames Valley Chamber of Commerce Group, 'New Study Reveals UK Government Policies Driving Surge in Offshore Business Outsourcing', (Kimon Services, 22 August 2025) <<https://www.thamesvalleychamber.co.uk/new-study-reveals-uk-government-policies-driving-surge-in-offshore-business-outsourcing/>>

16. Ibid.

17. Anne Morris, 'Skilled Worker Visa Fees and Sponsor Costs 2026', (Davidson Morris, 13 April 2026) <https://www.davidsonmorris.com/skilled-worker-visa-fees/#elementor-toc_heading-anchor-4>

Mobilising Domestic Savings and Improving Financial Literacy

Attendees, particularly those with a banking background, expressed the view that investment culture has been neglected in the UK compared to global markets. This is due to unnecessary complexity, attached costs and a lack of savings investment promotion. While attendees agreed there had been some positive movement on the issues of pensions and ISAs¹⁸, some participants expressed concern that progress on reform had been uneven. They pointed to ongoing uncertainty surrounding ISA reforms and the complexity of proposed anti-circumvention measures¹⁹ as examples of a policy process that they felt made it more difficult for firms and consumers to plan with confidence.

Participants felt passionately that UK households had forgone value by keeping savings in cash ISAs rather than equities. This over-reliance on cash savings and under-investment in the stock market have reduced the potential for long-term wealth building. One attendee emphasised work being done already by banks to identify and highlight potential lost wealth as a result of high levels of cash savings. The Social Market Foundation calculated that Brits have around £430 billion stuck in low-return cash savings, while retail investment is at the lowest rate among the G7 nations and four times lower than the US.²⁰

“If you look back over 20 years and you say, ‘OK, you’ve put about £800 billion worth of surplus savings into cash rather than things like equity goods, how much have you lost out as a retail saver by doing that?’ It’s about a 60% reduction in value. From the individual’s perspective, from the country’s perspective and from the business perspective, that’s £800 billion cash just sitting there which could be driving new businesses to grow.”

Financial literacy was raised as a potential contributing factor to the high cash savings levels. One participant thought that although there had been good signs from the government in terms of financial education and policy reform in the 2025 Autumn Budget, there is still too much complexity surrounding ISA rules, creating a barrier to entry for people who are hesitant about investment. Surveys have shown that nearly half of UK adults think the different versions of ISAs make them too complicated to engage with.²¹

18. **ISA (Individual Savings Account):** A UK tax-advantaged savings or investment account. Returns are exempt from income tax, capital gains tax, and dividend tax, up to an annual allowance of £20,000 (2026/27 tax year). This allowance can be split across multiple ISA types (Cash, Stocks and Shares, and Innovative Finance) including holding more than one of each, provided the combined total stays within £20,000. The Lifetime ISA is limited to one per person per year and capped at £4,000, which counts within the overall £20,000 allowance. Unused allowance does not carry over to the following tax year. From April 2027, the Cash ISA allowance will reduce to £12,000 for savers under 65.

19. Anti-circumvention measures are provisions designed to prevent savers or providers from using loopholes to sidestep the new ISA rules (for example, restructuring products to avoid new limits or restrictions).

20. Social Market Foundation, ‘Brits have £430 billion stuck in low-return cash savings – simplify ISAs to get us investing, says think tank’, (19 November 2025) <<https://www.smf.co.uk/brits-have-430-billion-stuck-in-low-return-cash-savings-simplify-isas-to-get-us-investing-says-think-tank/>>

21. Ibid.

Additionally, 30% said they would save more in ISAs if they were less complicated.²² There was, however, optimism among attendees at the prospect of using AI to increase financial literacy, making investment more accessible to consumers.

“The anti-circumvention measures that are being proposed – I cannot understand them. My subject matter experts and product teams can’t understand them. How on earth we expect a population that has problems with financial literacy to understand them is completely beyond the industry.”

. One banking sector representative also noted the significant issues being caused by fraud and scams, which act as a massive drain on the financial sector. In 2024 there was a net effect of over £1.1 billion in losses as a result of fraud, with 4.2 million confirmed cases.²³ There was a desire to bring telecommunications and social media companies into the conversation around tackling fraud. She noted that banks have invested a great amount of time, money and energy into tackling financial scams, but more cohesive action was needed to address the problem.

“From a banking perspective, if customers tend to have a lot of their money in their bank account, how can we help them make more of their money?”

These concerns over cash savings were echoed among participants in the context of pensions. It was felt that pension returns are being stifled by cautious bureaucracy and the costs that come with regulation compliance. One participant concluded that any positive legislation being developed on pensions is also accompanied by negative elements, diminishing the energy and ability to make positive changes. This was linked to the complexity and uncertainty that was often observed being woven into the policy process, with the example given of potential fiduciary duty amendments. Companies then struggle to develop financial planning due to concerns that policy will change halfway through the process.

An attendee also challenged the current auto-enrolment scheme for pensions, arguing for reforms to increase the current level of 8%. He felt positive about the scheme but thought it was not enough at its current level, causing people to rely more on getting their pensions from the state. There was concern that the government would struggle to afford civil service and state pensions at current levels, and suggestions were made for a slow increase from 8% to 15% over around a decade to better embed changes and reduce the potential shock to companies.

23. UK Finance, ‘Annual Fraud Report 2025’, (May 2025) <<https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/annual-fraud-report-2025>>

These concerns were echoed in the Second Pensions Commission's Interim Report, which found that according to the commission's replacement rates, 43% of the working-age population, equivalent to 15 million people, are undersaving for retirement within the current auto-enrolment system.²⁴ Modelling by the Institute for Fiscal Studies (IFS) found that increasing minimum auto-enrolment contributions from 8% to 12% would increase the share of workers on track for an adequate retirement income from 66% to 74%.²⁵ Taken together, these statistics suggest that the participant's concerns form part of a broader consensus that minimum contribution rates may need to rise if future retirees are to achieve adequate retirement incomes. On that evidence, the recommendation is to move to 12% and then assess the effect before considering a further increase.

Despite these concerns, the roundtable was also keen to highlight areas of opportunity within the industry. Talking about developments in payments, one attendee felt that the UK had the chance to be a world leader in tokenisation²⁶, despite a period of complacent policy allowing momentum to stall. She noted the development of Great British Tokenised Deposits²⁷ as an alternative to stablecoin²⁸, suggesting this, along with effective use of AI, could restore the UK to its standing as a global leader in payments.

24. Second Pensions Commission, 'Pensions 2050: Evidence and Future Priorities', (19 May 2026) <<https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report>>

25. Jonathan Cribb, Heidi Karjalainen and Laurence O'Brien, 'Automatic enrolment: trends in employer pension contributions and the impact of potential reforms', (July 2026) <<https://ifs.org.uk/publications/automatic-enrolment-trends-employer-pension-contributions-and-impact-potential-reforms>>

26. **Tokenisation** refers to the process of converting a real-world asset, such as property, stocks, or artwork, into a digital token on a blockchain. This token represents ownership or value in the underlying asset, allowing it to be traded, recorded or transferred digitally.

27. **Great British Tokenised Deposits** are a proposed UK digital payment instrument that represents a conventional bank deposit on a blockchain. Unlike a stablecoin issued by a private technology company, it is backed by money held within the banking system and is intended to combine the benefits of digital assets with the safety of regulated bank deposits.

28. **Stablecoin** refers to a type of digital currency designed to hold a steady value by being pegged to a stable asset, most commonly a traditional currency like the US dollar. This distinguishes it from other cryptocurrencies, such as Bitcoin, which can fluctuate significantly in value. Stablecoins are issued by private companies rather than governments or central banks, which typically hold reserves of cash or other assets to back the value of each coin in circulation.

Conclusion

While the UK financial sector has historically been one of the most dynamic and influential on the global market, recent pressures have limited capacity for growth within the industry. The roundtable discussion demonstrated the need for reform to reduce these barriers to development, allowing the financial sector to compete with comparative markets.

Companies are currently finding it too hard to contend with the compounding pressures of rising payroll burdens, stifling regulations, and the inability to compete with the US and EU financial sectors. Businesses want the government to enact urgent reform to tackle these issues which are not only disadvantaging the UK economy but also consumers. This was clear from the roundtable conversation, which consistently called for unambiguous looser regulation, lower employment costs, and greater financial education.

Recommendations made by the participants would allow the sector to employ from a much greater talent pool, without facing excessive visa sponsorship fees or National Insurance responsibilities. Regulations would act as a safeguard for consumers, rather than an obstacle to growth, and financial education would allow companies and individuals to maximise their return on savings. The UK has a proud history of financial services leadership and prosperity, and with the right policy environment, that potential for revival remains within reach.

Recommendations

The recommendations below reflect the views and priorities expressed by housing businesses and experts who took part in Prosper UK's Financial Services roundtable.

- 1 Remove the 0.5% stamp duty on equity trading transactions.
- 2 Lower National Insurance Contributions and review Skilled Worker visa salary thresholds.
- 3 Reform non-domicile tax changes to retain globally mobile talent and capital.
- 4 Review the use of Section 166 powers by the Financial Conduct Authority.
- 5 Align the Financial Ombudsman Service's role with the FCA to prevent regulatory overlap.
- 6 Reduce disproportionate compliance costs while protecting retail consumers.
- 7 Simplify Individual Savings Account (ISA) rules to encourage investment.
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