

Transforming financial systems

About Friends Provident Foundation

Friends Provident Foundation is a capitalised charity. We use our grant making and investment activities in pursuit of our mission for a fair and sustainable economic system.

We believe that our economy contributes to many of the problems that we face but it doesn't have to be this way. We have a vision for a better economy.

Since we were created in 2004, we have supported many projects and organisations working on economic change. We have funded the development of ideas and practical initiatives that have made some progress in trying to find new ways to shape our economy.

But post 2008 the financial system has firmly re-asserted itself, and climate breakdown and inequality have worsened. The UK is not short of ideas on how to change this: we have an active, creative movement of new economy organisations generating a wealth of intelligence, evidence and innovations for shifting the economy.

So, we need to turn our attention to what is stopping this shift becoming a reality. We believe that a key blocker to change is the 'hidden wiring' of the UK's financial system.

The problem

The financial system should exist to allocate available resources to meet economic and social needs but it has begun to serve itself and become more removed from the real economy.

The UK's financial system is a major international player, and very large compared to the UK economy. London vies with New York for title of the world's largest international finance centre, despite the population of the UK being far smaller than the US. The UK has:

- The biggest share of cross-border bank lending and borrowing.
- One of the world's largest markets for international debt issuance.
- The world's largest specialty insurance and reinsurance market as well as the fourth largest insurance market overall, and the largest in Europe.
- The world's second largest hub for asset management, hedge fund and private equity.
- Europe's largest and the world's third largest pensions market.
- The world's largest hub for foreign exchange (FX) trading

Some argue that the size of the financial system in the UK is itself a driver of poor outcomes, causing lost growth potential and misallocation costs (a focus on short-termism and rent extraction rather than investment, brain drain and price spillovers). Others point to the false argument that we can substitute jobs lost in other sectors for jobs in finance, whereas in reality financial services provide just over 3% of all UK jobs¹

Whilst some positive shifts were made within this system in response to the financial crisis of 2008, recently we are seeing a rolling back of some of that progress, meaning that work to push for a fairer and more sustainable system is having to run fast just to stay still. Through this programme of work, we are seeking to reverse this and explore barriers and blockages to the creation of a fair and sustainable financial system within the wider economy, such as regulations, policy ideas, power dynamics and cultures.

¹ Hutton, Panjwani, Ward 2024 'Financial Services: Contribution to the UK Economy'

The focus of our programme:

We aim to support work in three key areas, detailed below. For each we are looking for working that is **systemic in focus and positive, future building**.

- **Systemic focus** – We are interested in genuine system change that affects root causes. Work that makes important but marginal improvements would need to show how these can drive wider systemic impacts (such as addressing deep power dynamics that can create space for further change).
- **Positive, future building** – Work that can help move the system towards where we want it to be. Work that is about stopping the bad impacts of the system also needs to show how it is designed to help advance the alternatives

1) Government policy and regulation

Areas of interest include:

- Lobbying and influencing – initiatives to counter, not just uncover, the resources and impact of financial sector influencing efforts on regulatory bodies and government
- Changing the structure of the economy to support the reduction of inequality and moving away from a focus on servicing the needs of the wealthiest
- Improving the understanding and confidence of influential actors such as MPs and civil servants to talk about and challenge the financial ‘wiring’
- Reshaping the rules of the game to encourage public interests not vested interests

2) Banking

Areas of interest include:

- The role of the Bank of England and the Treasury in influencing the sector and how this could be used to support more social, environmental and economic benefits
- Promotion of a renewed social contract or mandate for more purpose focused not profit focused banking. This might be support for legislation or policy proposals that would challenge the regulation and culture around banking, but would not be support for individual purpose driven alternative banking mechanisms
- Initiatives to counter the influence of the shadow banking sector

3) Investment

Areas of interest include:

- Redefining the incentives and purpose of investment: to challenge the importance of shareholder primacy and rebalance investment incentives away from short term financial gain towards long term social and environmental impact
- Creating a more democratic, accountable financial system: questioning ownership rights and responsibilities within the financial system and encouraging a more transparent and participatory system that wider communities of people can influence
- Promoting responsibility and impact focus: including redirecting investment to serve public not just private interests and prevention of harmful investment. This area is closely linked to our own work as an active asset holder and we are looking to fund the most innovative or exceptional ideas for pushing the boundaries further here.