

To restore public trust, it's time for finance to find its purpose

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We should focus on how best to get financial services companies to focus on their purpose, and then be held accountable to that purpose (Source: Getty)

Given the centrality of financial services to the UK's economy – whether through the tax revenues it pays, the two million jobs it supports, or the basic functions of our economy which are dependent on it – this work is long overdue.

Our collective failure to address this lack of trust can have severe consequences. In my experience, this can mean anything from younger employees being reluctant to admit that they work in the City, which in turn impacts our ability to recruit the best and brightest, to layers of new regulation and oversight that drain productivity from the sector.

This is a problem we need to tackle. So over the past two years, Pension Insurance Corporation has been sponsoring a project on the Purpose of Finance.

The aim has been to facilitate a debate, from a position of support, about how best to repair the disconnect between society and financial services. That debate by necessity needs to include politicians, regulators, and the industry itself.

We have just launched the third paper in the series, which asks whether efficiency has improved in the European finance industry.

In it, Dr Guillaume Bazot presents ground-breaking research on the cost of finance to the end user in the UK, US, France, and Germany over a period of 70 years.

Despite how crucial the UK's financial services sector is to the economy, no one has ever before sought to measure its aggregate cost to the end user (the cost of intermediation).

The good news is that the UK has consistently had a significant competitive advantage, even over the US.

However, what is perhaps surprising is that the cost of intermediation today in the UK, US and Germany is similar to what it was 70 years ago. Only in France, which had a period of deregulation from the 1950s onwards, has the cost of intermediation come down.

This measure should be of vital importance to all of us. First, it is impossible to know how regulation and oversight of the industry impact the wider economy without it. Second, history shows that lowering aggregate costs to the end user has significant benefits for the real economy.

Dr Bazot's paper raises important questions about reinvigorating the economy post-Brexit, and in the long-term about how to power the next industrial revolution.

There has been vigorous debate, both in the City and in Westminster, about the factors shaping this measure.

The use of technology, financial innovation and competition are believed to bring intermediation costs down. But equally, they may be counteracted by the abuse of asymmetric information, increased regulation and consumer protections, as well as risk aversion and short-termism in the markets.

Another factor is likely to be the increased number of charges that have been a natural outcome of the huge growth in financial services over the 70 years covered by his study. This is not really surprising, given the massive increase in the number of savings and investment products and the complexity of finance that we have seen over that period.

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