

British MPs urge 'Big Bang' reform to promote banking sector competition

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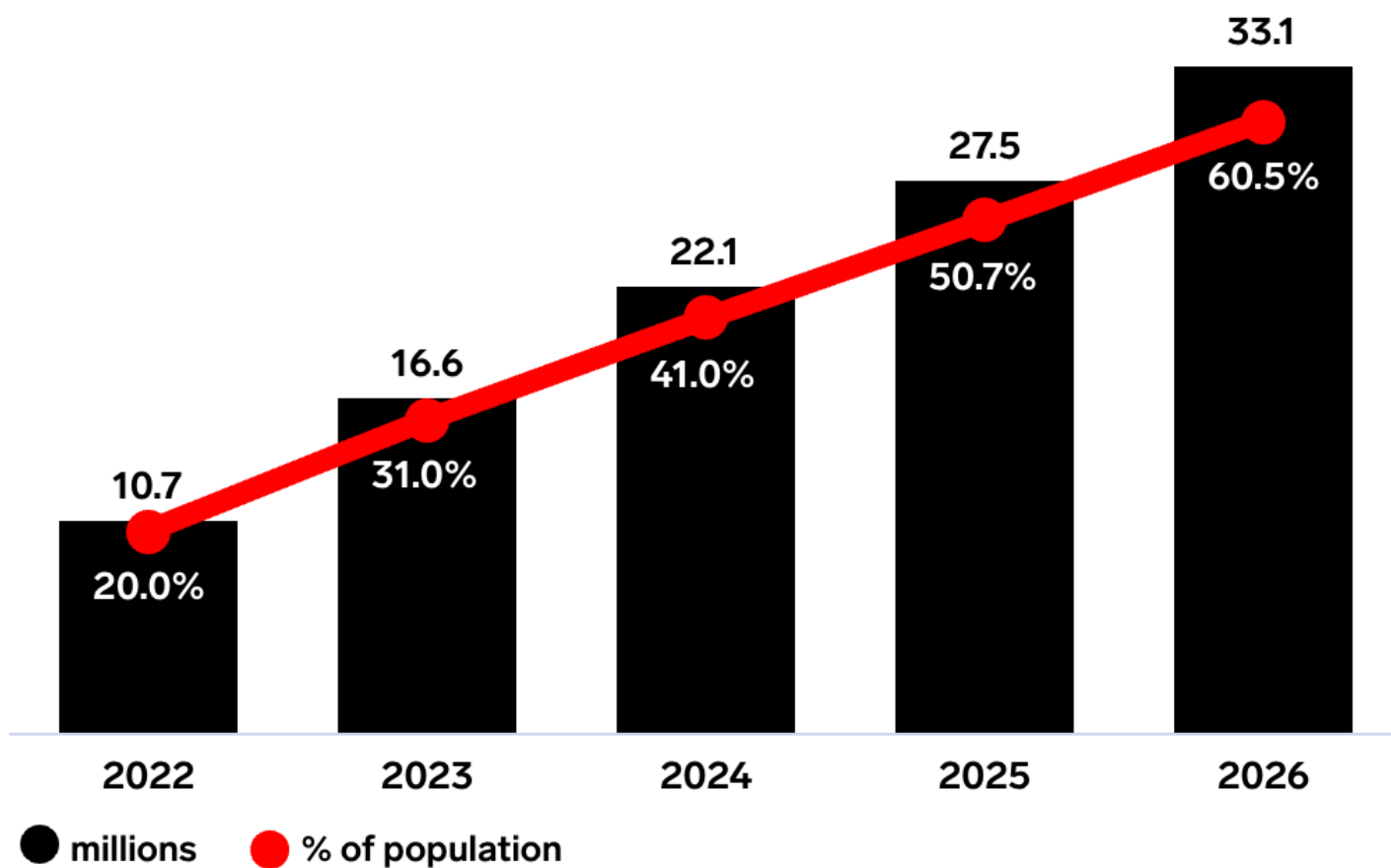
The news: The UK needs a “Big Bang” of financial services reform to promote banking sector competition and grow the fintech market, according to a parliamentary committee.

What's being recommended? In a new [report](#), Members of Parliament (MPs) from the All-Party Parliamentary Group on Challenger Banks and Building Societies urged the UK's incoming government to take action to “drive levelling-up” in financial services. The group advised the government to:

- 1. Provide regulatory support:** Watchdogs need to better support new building societies and regional- and community-focused banks. To do this, the regulator should break “restrictive regulatory practices” that allow the biggest banks to dominate.
- 2. Protect branches:** The government should force incumbent lenders to offer their branches to challenger banks before closing them. Challengers should also be offered financial incentives to take over branches and open new ones, especially in areas where no branches are available.
- 3. Promote competition:** Banks operating outside of London and the South East should get different regulatory rules. And the minimum requirements for the banks' funding and eligible liabilities (MREL) should be changed to better compete with those in the EU and US.
- 4. Prioritize open banking:** More should be done to broaden the UK's open banking model and allow open banking to offer a view of each person's financial situation.

Open Banking Users

UK, 2022-2026



Source: eMarketer, March 2022

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Leveling-up or parliamentary fluff? Though big on buzzwords the MPs' report does also provide some practical advice for relatively cheap changes that could improve the banking sector. Many of these changes are centered around deregulation that would make it easier for neobanks and fintechs to scale. In theory, this will improve competition and offer badly needed benefits to consumers currently facing a cost of living crisis.

The report's plan to develop open banking in the country is light on detail but timely: **Open banking users are projected to grow 72% this year to hit 10.7 million**, per Insider Intelligence

forecasts.

However despite their practicality, the committee's recommendations may face resistance:

- Altered regulations might provide neobanks and fintechs with a favorable climate for growth, but such regulations would likely be very unpopular with high street banks, which could view them as overly biased and harsh.
- The feasibility of having different rules for different regions is questionable and would prove unpopular with lenders in the capital.
- While branch closures are a hot topic, giving challenger banks the option to buy those set to close wouldn't necessarily appeal to them. Many neobanks follow a digital-only business model and choose to do without a physical presence.

What's next? The latest report offers some valuable insight into parliament's wish to promote neobanks, fintechs, and open banking, but the next British prime minister is under no obligation to follow any of its advice. Both of the remaining candidates vying for the office have promised bold policy decisions: Liz Truss has made remarks she may reconsider the Bank of England's independent decision-making on interest rates. But it's still unclear whether either candidate would radically change financial services regulations.