Public perceptions of the financial services industry and its regulation in the UK

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Headlines

1. People generally have a very limited understanding about how the financial services industry works, including its regulation and regulatory institutions.
2. While trust in the financial services sector is low, it has risen in the past decade, including relative to legislators.
3. There is little support for deregulation (including amongst Conservative voters in 2019), with a significant appetite for more government action to regulate the financial services sector.
4. People want to make sure the economy and their personal finances are protected from financial crises, but many feel disempowered.
5. Most people don't want their money to contribute to harming the planet, but many aren't aware that their mainstream bank/ financial institution might be enabling this.

Executive summary

This briefing paper explores existing research on public perceptions of the financial services industry and its regulation in the UK. The first section of the paper outlines research directly related to this broad topic. The second section looks at supporting information about public perceptions of finance and the financial services industry as a whole, as well as climate change and social responsibility.

Although there is a lot of research about perceptions and understanding of the financial services industry, finance more generally, and some about the relation between climate change and finance, there appears to be less about the role of government and regulators. It was also challenging to find much information about particular messengers and mediums through which people receive information about financial services. Therefore the research highlighted in this paper is more heavily skewed towards some areas than others. It should also be noted that the time period over which the research has been collected is quite long - going back to the 2000s (specific dates are provided). A brief summary of each section is outlined below.

Note: This briefing paper relies partially on survey data, some of which is stated as being representative of UK or British adults. However, it is important to note that those from Black,

Asian, and minority ethnic (BAME) backgrounds tend to be underrepresented or not reported in these types of polls (Wang, Corner and Ogunbode, 2021).

Public perceptions of financial services regulation

Research shows that people think there is a key role for government in the economy and that they should regulate financial services (Devlin, 2014; NEON, NEF, FrameWorks Institute and PIRC, 2018). The public has little confidence that banks comply with regulations and when asked about big businesses generally, a majority thought that they would abuse their staff and customers without government regulation (YouGov-Cambridge, 2013; YouGov, 2014).

People think the highest priority for the government's new regulatory framework for the finance sector should be "ensuring the financial system is safe and stable to ensure there isn't another financial crisis" (Finance Innovation Lab, 2022a). Also, a majority of the UK public feel negatively about financial services regulators promoting 'international competitiveness' (Finance Innovation Lab, 2022b).

The financial services industry

Public perceptions of the financial crisis 2008 tend to be negative. Ten years after the financial crisis, a majority of people felt that it could happen again and that banks and bankers should have been more severely punished (Positive Money, 2018; YouGov, 2018). Since then, trust in bankers and large financial institutions has remained low, though it has increased slightly in recent years, including in relation to politicians and government ministers (Department for Business, Energy & Industrial Strategy, 2021; Financial Conduct Authority, 2021; Clemence, 2021).

People appear to have a limited level of understanding of the UK financial services industry, view it differently to their personal finances, and there are also barriers to engaging with finance, including people's level of financial numeracy (Fielding, Arthur, Stanley and Matthews, 2021; Kennedy and Gottfried, 2021; YouGov, 2019).

Climate change and social responsibility

There is public concern about "banks' financing of fossil fuels", and people do not want their investments or banks themselves to harm the planet (Department for International Development, 2019; Elliott and Löfgren, 2022). However, there is also a low level of awareness of sustainable investment and how banks use customers' money (ClientEarth, 2019; Department for International Development, 2019).

Section 1: Public perceptions of financial services regulation

1.1 Government and regulators

Some research has explored public perceptions of financial services regulation in the UK and Britain:

- British adults are generally supportive of financial regulation, with two-thirds stating that they think more is needed or the current balance is about right. Less than one in ten support deregulation, and the appetite for deregulation is low for Conservative, Green and SNP voters (and those who didn't vote), those who voted Leave, and those in Wales and the north. (Finance Innovation Lab, 2022c)
- When the UK public were asked about the government's new regulatory framework for the financial services sector, 44% thought that "ensuring the financial system is safe and stable to ensure there isn't another financial crisis" was a priority, followed by 30% who thought that "protecting consumers from scams and exploitation/ mis-selling" was a priority (Finance Innovation Lab, 2022a)
- When asked about a potential government policy for financial services regulators to "promote the 'international competitiveness' of the sector", a majority of the UK public felt negatively about it. They felt it would be "out of touch and elitist" (66%), "irresponsible and risky" (62%), "repeats the mistakes of the past" (62%), " puts The City of London first (67%), " puts your savings at risk" (62%) and "is the wrong priority now" (65%) (Finance Innovation Lab, 2022b)
- When the UK public were asked about changes to regulation in terms of how the finance industry uses its money (Public First, 2022):
    - 73% would support "changing regulation to encourage more investment outside of London and the South East". Support was particularly high for those in the East Midlands (81%), North East (81%) and North West (81%)
    - 74% would support "changing regulation to encourage more investment in small and medium size businesses"
- Research in 2013 found that only 15% of UK adults are "confident that banks comply with government regulations" (YouGov-Cambridge, 2013)
- A majority of the British public thought that big businesses would abuse their staff (74%) and customers (68%) without government regulation (YouGov, 2014)
- The public generally do not want EU standards to be reduced or removed, including the cap on bankers' bonuses - only 9% want to relax or remove it and there is strong support to retain or tighten it from older age groups and those who are retired (Morris, 2018)

- Research from 2004 showed that the UK public are "reasonably convinced" that the government should regulate financial services. However there are demographic differences: women, those at retirement age or above, and those at social grades D and E are less likely to be convinced (Devlin, 2014)

- Similarly, other research with the UK public favour regulation and want "businesses to make less profit and be more socially responsible", as well as a "closer relationship between government and business" (Elliott and Kanagasooriam, 2017)

- 70% of the British public think that the government "should listen to the advice of economists" (The Economics Network, 2019)

There is also some research regarding financial regulators including outside of the UK:

- 44% of the British public are not clear about what the Bank of England (the most powerful regulator) does (33% 'not very', 11% 'not clear at all') compared to 8% who are very clear and 42% who are somewhat clear (YouGov, 2019)

- In the USA, a national survey found that although many people think that regulation is important, a large majority feel negatively towards financial regulators: 75% think that they "care more about their own jobs and ambitions than about the well-being of Americans", 74% think "regulations often fail to have their intended effect" and 80% think they are politically biased (Ekins, 2017)

- Some researchers have suggested that "the highly technical nature of financial regulation...excludes the public from discussion, and leav[es] regulators without public support for action. Financial literacy could make a crucial contribution [in this area]" (Hütten, Maman, Rosenhek and Thiemann, 2018)

Section 2: Broader public perceptions and understanding of finance and the financial services industry

2.1 The financial services industry

Much research tends to focus on banks and banking, rather than the financial services industry as a whole. While it is not clear why this is the case, 96% of UK adults have a current account (Financial Conduct Authority, 2021) and therefore banks are part of the finance industry that people regularly directly engage with. As a comparison, in 2020 less than two thirds of UK adults held a (non-state) pension (Financial Conduct Authority, 2021). Research also points to a lack of understanding of the economy and that people tend to see it as relating to money (NEON, NEF, FrameWorks Institute and PIRC, 2018).

Perceptions of the financial services industry

Although some research shows an increase in public trust in large financial institutions over the last few years, it is generally still quite low. For example bankers are trusted much less than people in other professions (although more so than politicians and government ministers):

- When asked about the importance of the banking and finance industry, the UK public think that (Public First, 2022):
    - It is important for the UK economy as a whole (92% agreement), but less so for their own region (78%)
    - However when compared with other industries, people see it as the fourth most important industry in the country (out of 15 options), behind healthcare (49%), water/electricity/gas companies (29%) and education (29%). Perceived importance of the banking and finance industry is slightly less for those at the lower social grades (C2 and DE), women, and younger adults
- The UK public see the finance industry as particularly important for employing people, investment in businesses, and providing financial services to ordinary people (Public First, 2022)
- However, in 2016, the Chief Economist at the Bank of England stated that when the general public described financial markets, the most common word used was “corrupt”, followed by “manipulated”, “self-serving”, “destructive” and “greedy” (Haldane, 2016)
- Research in Europe, Asia-Pacific and the Middle East exploring public perceptions of banker honesty found variation between countries, in contrast to earlier research which showed that "people expected bankers to be more dishonest than other professionals” (Rahwan and Fasolo, 2019)
- Global research shows that trust in financial services decreased from 2020 to 2021. However, when looking at a broader time scale from 2012 to 2021, trust has increased from 44% to 52% (Edelman, 2021)
- 42% of UK adults "agree that they have confidence in the UK financial services industry", a slight increase from 2017. There are also demographic differences: confidence increases with age and men are more likely to have confidence in the industry than women. Certain groups of people also lack confidence in the industry including households earning under £15,000, people with “low financial resilience”, and those in poor health (Financial Conduct Authority, 2021)

- Over the last three years, the UK public were asked if they trust large financial and legal businesses on a variety of measures. The percentage that agree with the following has gradually increased in most cases (Department for Business, Energy & Industrial Strategy, 2019, 2020, 2021):
    - 'Treat all their employees fairly': 43% (2019) → 45% (2020) → 48% (2021)
    - 'Act in a socially responsible way': 39% (2019) → 40% (2020) → 46% (2021)
    - 'Be open and honest in their dealings with customers': 39% (2019) → 40% (2020) → 48% (2021)
    - 'Tell the truth': 35% (2019) → 34% (2020) → 43% (2021)
    - 'Be open and honest about how much tax they pay': 25% (2019) → 25% (2020) → 34% (2021)
    - However, there is still a significant percentage of people who do not trust large financial and legal businesses to do the above, with a particularly large percentage who do not trust them on tax (59% in 2021)
- Research with British adults in 2021 found an increase in general trust in banking (28% compared to 20% in 2018), though not as high as reported for the specific measures above (Ipsos, 2022)
- Public trust in the financial services industry (banks, financial advisers, government, credit card companies and more) in the UK is low. Banks are the most trusted, followed (in order) by mortgage lenders, pension companies, credit card companies, financial advisers, then insurance companies. However, only 20% have high trust in banks. There are also some demographic differences: "trust in financial services institutions tends to increase with age" (Financial Conduct Authority, 2021)
- Public trust in bankers is much lower (43%) than the most highly trusted profession in Britain (nurses: 94%), though higher than politicians and government ministers (19%) and business leaders (31%) (Clemence, 2021)
- In the UK, having confidence that banks will protect your data was the most important reason for people's trust in a particular brand, followed by having local branches and showing that they care about your needs (Bellens, Lele and Mannamkery, 2021)
- From 2020 to 2022, the public have been fairly evenly split in terms of whether they do or do not trust long term financial products (Which?, 2022)

Many people feel uncomfortable about the pace of technological change underway in financial services, which can make access to basic services difficult:

- 72% think a move towards a “cashless society” is happening too fast (Enryo, 2020)
- The decline of high street banking leaves half of the population feeling pessimistic about the future (Which?, 2019)

The global financial crisis 2007/08

Research about the global financial crisis of 2007/08 suggests that people were unhappy with the banking industry, and ten years afterwards a majority of people thought that there should have been more consequences and still had concerns about banks:

- Research with some members of the UK public indicated that there was a “general dissatisfaction with the banking industry" after the crisis (Bennett and Kottasz, 2012)
- In the same research, people who were high-income and politically conservative blamed the banks less than those who knew more about it or who had been badly impacted because of the crisis. Those who had “limited knowledge of the crisis tended to rely more heavily on [their perceptions – good or bad – of the] industry’s reputation when forming their current attitudes towards the sector” (Bennett and Kottasz, 2012)
- In 2018, 67% of the British public thought that some bankers should have been sent to jail because of the 2008 financial crisis (YouGov, 2018)
- In 2018, 63% of the British public were concerned that there may be another financial crisis due to the banks, and 72% thought that banks should have “faced more severe penalties” because of the financial crisis (Positive Money, 2018)
- In 2022, most British adults - 72% - would be fairly or very worried about their personal financial position should there be another financial crash, similar to the one experienced in 2007/8. Just 2% of the population are not worried at all. (Finance Innovation Lab, 2022c)

Level of understanding of the financial services industry

Research shows that people appear to have a limited level of understanding of the UK financial services industry, and also that people see their personal finances quite differently to the industry as a whole:

- There is a "clear division between how people see themselves and their own money, and how they see the wider financial sector", leading to “an overwhelming sense of apathy and inertia” (Fielding, Arthur, Stanley and Matthews, 2021):
    - When considering the financial sector, people feel that it "belong[s] to the ‘experts’", feel "overwhelmed by the scale" and "lack trust in financial institutions’ motives", "avoid, but are not surprised by, information about our

providers' wrongdoings" and are "suspicious of claims to ethical or sustainable behaviour"

- Similarly, focus groups in the UK found that people "understood economic issues through the lens of their familiar 'personal economy' (such as the cost of living) rather than the abstract 'national economy'". For example, understanding how interest rates would affect them personally but not knowing why the Bank of England would alter interest rates and the wider impact this would have (Runge and Hudson, 2020)

- In the UK, public understanding of "economic concepts" is broad and limited, with people generally not able to give "more detailed explanations" (Runge and Hudson, 2020). Nevertheless, 74% of the British public think that understanding economics is important to everyday life (The Economics Network, 2019)

- Research with the UK public found that there was a "tremendous fatalism and an inability to imagine positive, structural changes in the economy". The research found that (NEON, NEF, FrameWorks Institute and PIRC, 2018):

    - People tend to see the economy as a container that relates to money and is at the "edge of disaster" in terms of being "volatile, unpredictable and difficult to manage". There was also a lack of understanding of the economy, which was "seen as being governed by 'mysterious market forces'"

    - People also felt that the "system is rigged", that there is a "hidden agenda" and also that "greed=human nature"

- A survey of the UK public found that between 35% and 41% of those aged 18-64 thought that "the UK's economy is rigged to the advantage of the rich and powerful" (compared to only 27% of those aged 65+) (B Lab UK, 2020)

- The same research also found that a large majority (76%) think that "Capitalism either 'needs to be fixed', or is 'harmful'", though 53% thought that it needed "reform over revolution". However, a slightly higher percentage of those aged 18-24 (31%) thought that "Capitalism is harmful to the UK" compared to 17-25% for other age groups. A higher percentage of those who are unemployed (41%) also agree with this compared to those who are employed (21%), furloughed (26%) or inactive (31%). There are also some gender differences, with women being "more pessimistic [than men] about the effects of Capitalism" (B Lab UK, 2020)

- Similarly, research with the UK public found that they think the "capitalism 'brand' is [...] greedy, selfish and corrupt" (Elliott and Kanagasooriam, 2017)

- Workshops bringing together economists and members of the UK public to discuss economics recommended more "public engagement studies on economic issues" and found that (Runge and Killick, 2021):
    - Both sides felt positively about the experience
    - The economy and economic statistics should be "simpler and more relatable, drawing on people's own experiences and interests"
    - The public were limited in their understanding of economic concepts, but "improved their understanding of economic terms and the work of economists" through the workshops

Level of understanding of personal finance

Research shows that many people have barriers to understanding and engaging with finance in general as well as the financial services industry, and there are differences between demographics:

- 18% of the UK public have low confidence working with numbers in everyday life, and 60% of these are "likely to lack confidence managing their money" (Financial Conduct Authority, 2021)
- 44% of the UK public are over confident in their ability to work with numbers when in fact they have "poor to moderate financial numeracy" (Financial Conduct Authority, 2021)
- Financial literacy is lower (69%) in the most deprived parts of England compared to the least deprived (90%) and research also shows some demographic differences (Kennedy and Gottfried, 2021):
    - Ethnic minorities in England are less financially literate than those from a non-ethnic minority background (65% vs 85%), but they are "more likely to say they had learned about personal finances" at school (18% vs 7%)
    - Men were found to be more financially literate than women (86% vs 78%)
- Demographic differences were also found in Britain with regards to knowledge, confidence and interest in economic statistics - this was higher for those who are "male and older, from higher socioeconomic groups and had higher education levels" (Runge and Hudson, 2020)
- Focus groups in the UK showed that people felt that economic issues were inaccessible and impacted on their ability to engage with them. Also, there were "misperceptions" about economic data collection and measurement, leading to some scepticism about it (Runge and Hudson, 2020)

- “Interia is common” for the UK public when using financial services (Financial Conduct Authority, 2021)

- When considering their feelings towards personal finance, people feel "embarrassment and guilt", "financially illiterate and disempowered", feel they have no role as "savers or investors", have "mixed motives around...financial return and convenience”, and have to consider family needs (Fielding, Arthur, Stanley and Matthews, 2021)

- In October 2020, most UK adults – 53% or 27.7 million – had characteristics of vulnerability in relation to financial services. The FCA defines these as low capability, low resilience, having experienced negative life events, and being in poor health. People classified as vulnerable may make poor financial decisions or find it difficult to access a product or service - and are “especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care.” This can then lead to problems such as mis-selling, loss of money, and over-indebtedness, with knock-on effects on a person’s mental health, quality of life and relationships. (Financial Conduct Authority, 2021)

Financial advice

When seeking financial help, research shows that people do a mix of their own research and seek advice from friends and family, though many do not discuss financial problems with anyone and only a small percentage have paid for financial advice recently:

- A survey of the British public found that 39% “would benefit from access to free financial advice”, with the figure slightly higher for men than women (41% vs 37%). Also, only 7% had paid for financial advice over the last two years (OpenMoney, 2021)

- Research with some members of the UK public found that 15% used “websites such as Money Advice Service, Citizens Advice, or GOV.UK” for financial information and guidance (Ripley, Weir, Older and Farr, 2018)

- The above research also found that people reported that discussions with friends or family about financial help often occurred as part of wider conversations, and they “found it difficult to recall for sure whether they had specifically asked for any financial help from [them] in the last 12 months” (Ripley, Weir, Older and Farr, 2018)

- For members of the British public who used financial advisers (either free or paid), they found their adviser mainly through a combination of their own research and recommendations from family or friends (OpenMoney, 2021)

- When looking for financial advice (without the use of a paid adviser), 45% of the British public do their own research and 41% seek recommendations from friends

and family. Only a small number use social media (1 in 25) for advice, but this is much higher for those aged 18-24 (1 in 6) (OpenMoney, 2021)

- A large proportion of the British public (37%) do not discuss financial problems with anyone, though many do discuss these issues with family and friends (40%), and to a lesser extent, banks/financial organisations (24%) (OpenMoney, 2021)

2.2 Climate change and social responsibility

Research suggests that people do not want their money or financial institutions to harm the planet, and there may be increasing public pressure in this area. However, there is a low level of awareness of how banks use customers' money and what sustainable investment is:

- When the UK public were asked what the most important role is for banking and finance in relation to the economy and society, "helping to improve the environment and achieve Net Zero carbon emissions" was the most highly ranked at 22%. Those aged 18-34 were at least twice as likely to choose it as the most important role compared to those aged 45+. There were also slight differences depending on ethnicity (white: 21%, BAME: 26%) and region (e.g., higher support in London and the East of England compared to Scotland, Northern Ireland and the North East) (Public First, 2022)
- 70% of the UK public would want their savings or investments to avoid harm to the planet and achieve good for the planet, such as avoiding "companies that contribute significantly towards climate change" and investing in those who address climate change "by developing green/clean energy solutions" (Department for International Development, 2019)
- 80% of the British public think it is "morally wrong for banks to profit from investments that pollute the environment" (Savanta ComRes, 2017)
- 59% of UK adults agree that "financial institutions and banks should no longer be investing in fossil fuels" (ClientEarth, 2019)
- In 2013, only 4% of the UK public thought that the UK banking industry has "high ethical and moral standards" and 13% felt that it "improves people's lives and is socially useful" (YouGov-Cambridge, 2013)
- 64% of the UK public think it is important that "financial institutions actively avoid investing in companies that harm people (e.g. poor worker safety records) or the planet (e.g. by making climate change worse)" (Department for International Development, 2019)

- 31% of UK adults have researched their banks' investments to see if they are ethical and 52% think that 'green financial choices' are important. However, only 14% have "actually tried to make their finances greener in the last 12 months", with accessibility being a key barrier in decision making (Garner and Hooson, 2022)
- Only 13% of the UK public have heard of and could explain sustainable/socially responsible investment, with 33% having heard of it but not sure what it means (Department for International Development, 2019)
- 61% of UK pension holders "want their retirement savings to help fight climate change", with this increasing to 72% for those aged 18-24. Although awareness is low (80% of pension holders overall were not aware that their pension may contribute to climate change), 44% say they would change their pension to a sustainable one if offered (Smith, 2021; Make My Money Matter, n.d.).
- In the run up to COP26, 39% of people in the UK who have investments said that it made them think about using their money "in a more sustainable way" (James, 2021)
- Of those in the UK who say they would not invest in an ethical fund, 26% (up from 17% in 2020) question whether their ethical claims are legitimate (James, 2021)
- 49% of the British public "support a low-risk government bond made available to the public and used to help build net zero housing, roads and transport". Also, 30% say they are "much more likely (compared to last year) to actively choose products and services based on their positive environmental or social impact, [however] only 5% of those who saved money would consider investing it with a positive impact or ethical investment platform" (Good Money Week and UKSIF, 2020)
- Researchers suggest that there is increasing pressure on the finance industry from the public with regards to climate change:
    - Due to "rising public pressure on financial institutions", there is a recognition from some investors and banks that they need a "strategy aligned with 1.5°C" to "deliver their long-term promise to savers, beneficiaries, clients and society at large" (Robins, Dikau and Volz, 2021)
- The public are "increasingly raising concerns about banks' financing of fossil fuels" and that it is difficult for the public and financial regulators to "hold banks accountable for their progress in mitigating climate change" because of the "'alphabet soup' of [climate-related] disclosures" (Elliott and Löfgren, 2022)
- 62% of people in the UK are unaware that "UK financial institutions like banks and pension funds use ordinary customers' investments to help pay for fossil fuel projects" (ClientEarth, 2019)

- 80% of Barclays and HSBC customers “were not aware that their bank was investing in fossil fuels” (George, 2021)
- When the UK public were asked about the government’s new regulatory framework for the finance sector, only 12% thought that “reducing the impact of financial services on climate change” was a priority (Finance Innovation Lab, 2022a)

There is also some research into climate change and other “bigger-than-self” issues and how people’s values relate to financial concerns:

- Research into intrinsic and extrinsic values also suggests that people who are “primed with extrinsic values give[s] more attention to economic and financial concerns” (Chilton, Crompton, Kasser, Maio and Nolan, 2012)

Sources

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