

# The UK Financial Services Sector Has Lost Its Edge—Here’s How to Win It Back

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— Executive Summary

While the UK's financial services sector continues to appear a world leader on the surface, analysis beyond superficial metrics reveals fifteen years of underperformance. The virtuous circle – where a thriving financial sector feeds lending, investment and productivity growth across the economy – has broken down. The sector that once drove UK productivity growth now actively drags it down. Had the sector continued to grow at its pre-bubble trajectory, it would be 40% larger than it is today. This equates to an additional £66 billion in output and £100 billion added to the wider economy.

## Enduring Strengths

- **The UK holds the second-largest share of financial assets globally:** It accounts for 7% of global assets overall, and the UK's asset management space has grown 7.2% per year since 2009 compared with 5.8% across Europe.
- **The UK is the second-largest exporter of financial services:** It has sustained a 13%–15% share of global exports over the last decade, amounting to \$132 billion in 2022.
- **The UK has a vibrant fintech sector:** It has created 40 unicorns in 20 years – more than China, India and Brazil – and fintech valuations account for 22% of UK financial services market capitalisation, compared with 13% in the US.
- **The UK is the second-most attractive destination for top talent globally:** It attracts 8% of internationally mobile AI experts who moved to the UK in 2025.

## Recent Struggles

- **Business lending has seized:** Total lending to private non-financial corporations has returned to levels last seen in 1998, standing at 59% of GDP in Q3 2025, with both bank lending and other forms of credit having fallen as a share of GDP. SME loans have almost halved as a share of GDP since 2011.
- **Productivity growth has stalled:** Contribution to aggregate productivity growth has flipped from +3.5% pre-2008 to -1% between 2019–2024. Operational expenditure as a share of total assets has also risen in the UK but fallen in most other geographies, demonstrating a drop in efficiency.
- **Shareholders have lost out:** If £100 was invested in UK financial services stock in April 2011, its total value would be worth £185 less by the end of

2025 than if invested in US financials and £108 less than if invested into UK industrials.

- **Employment has declined:** Jobs in UK financial services have fallen 1% since 2011, while the equivalent employment has grown 17% in the US and 16% in France. Assets per employee, however, have remained static in the UK.
- **Capital is not flowing where it is needed:** 53% of total pension fund allocation was invested in UK equities in 1997 compared to 4% in 2022. Additionally, UK households have the lowest share of personal wealth held in equities and mutual funds (8%) in the G7.

### Why Has This Happened?

Three active choices compounded the impact that the global financial crisis (GFC) and subsequent shocks, such as Brexit, had upon the financial sector.

- **Regulation has institutionalised risk aversion:** UK banks have a Liquidity Coverage Ratio (LCR) of 152% versus 120–140% for peers; and a Common Equity Tier 1 (CET1) at 15.4% versus 13.4% in the US. Consumer regulations have had the unintended consequence of reducing consumer access to certain products, investment advice and in turn financial education. Compliance headcount rose by more than 500% from 2009–2021.
- **Business credit has become structurally harder to access:** Outstanding SME loans have almost halved as a share of GDP since 2011, with both supply and demand trapped in a self-reinforcing cycle.
- **UK firms have chronically under-invested in technology:** Software capital stock has grown 2.5% annually since 2010 versus 6.7% in the US. The UK has fallen to fourth from first in terms of software capital stock as a share of total assets among developed economies.
- **Fee income growth has dried up:** Over the past five years, fee income among the UK's largest banks has plateaued, while European and North American peers have seen respective increases of 33% and 20%. This has meant UK banks have had to push harder to increase retail net interest margins.

There have also been a series of structural shifts in the sector. It has moved away from core financial services towards auxiliary services, which employ more people but for relatively less output. It is more reliant on exports, which have been hard to grow.

## What the UK Needs to Do

Three unfolding global megatrends are redrawing the competitive stage and financial institutions. Agentic AI, digital asset infrastructure and platform-based competition are each significantly impacting how the sector operates and the UK must act now to adopt these or risk falling further behind its peers

Combined with the historic challenges, we identify four coordinated actions:

- 1. Reimagine Finance with AI at the Heart:** The UK must move AI beyond back-office automation and towards revenue growth. This can be achieved through shared national infrastructure, such as digital identity, KYC utilities, cyber pooling; rapid efficiency gains in areas like credit underwriting and customer service; and AI-driven strategies to reclaim disintermediated customer relationships from mortgage origination to ecosystem banking apps. The government should consider full expensing AI-related capital investment, including intangibles.
- 2. Turn Balance Sheets into Growth Engines:** A permanent public-private growth credit platform within the British Business Bank (BBB), paired with a federated data utility and statutory SME Credit Passport, should unlock lending to established but asset-light firms that are falling between existing schemes. In parallel, removing frictions in retail and pension investment – through education, platform reform, UK-weighted default funds and a capital gains tax exemption on domestic equities – can redirect household savings toward productive UK assets.
- 3. A Platform to Scale Digital Assets:** The UK has a narrow window in which to establish a lead in institutional digital asset infrastructure. To do so, it must solve the on-chain cash leg, provide prudential and legal clarity for tokenised assets, create a dedicated licensing pathway for DLT-native firms and coordinate interoperability across settlement platforms – all within published timelines through 2027.
- 4. A New Compact Between Government, Regulators and the Sector:** Stability must remain non-negotiable, but growth needs equal institutional weight. This can be achieved by producing a published Business Lending Conditions Index with mandatory review triggers; cumulative regulatory burden assessments; binding authorisation timelines; a sandbox-to-scale pipeline; ring-fence recalibration; and removal of capital regime distortions that penalise domestic corporate lending.

# State of Play

Productivity in the UK financial sector – output per worker – fell to 55% of the global frontier in 2024 from a pre-financial crisis level of 80%.<sup>1</sup>

To put this into perspective, if the sector had continued to grow at its pre-bubble 1992–2001 trend rate, it would be 40% larger (£66 billion) than it was in 2025. It would have also added £100 billion to the UK economy.<sup>2</sup> This is not just a sector problem – it is a drag on the entire UK economy, and the trend is only worsening.

## EXHIBIT 1

The Prize: The Financial Services Sector Would Be 40% Larger Today if Pre-GFC Growth (1992-2001) Had Continued

Financial services and insurance sector by GVA (£)



1. The implied GDP gap figures include direct, indirect and induced effects from greater output across FS subsectors. GDP multiplier based on weighted GVA shares using OECD Input-Output Tables (2022).

## What's Gone Well

- **The UK holds the second-largest share of financial assets globally:** It accounted for 7% of global assets overall in 2023, compared with 28% in the US,<sup>3</sup> while the asset management space has grown 7.2% per year since 2009 versus 5.8% across Europe.<sup>4</sup>
- **The UK is the second-largest exporter of financial services:** It has sustained a 13%–15% share of global exports over the last decade, amounting to \$132 billion in 2022.<sup>5</sup>

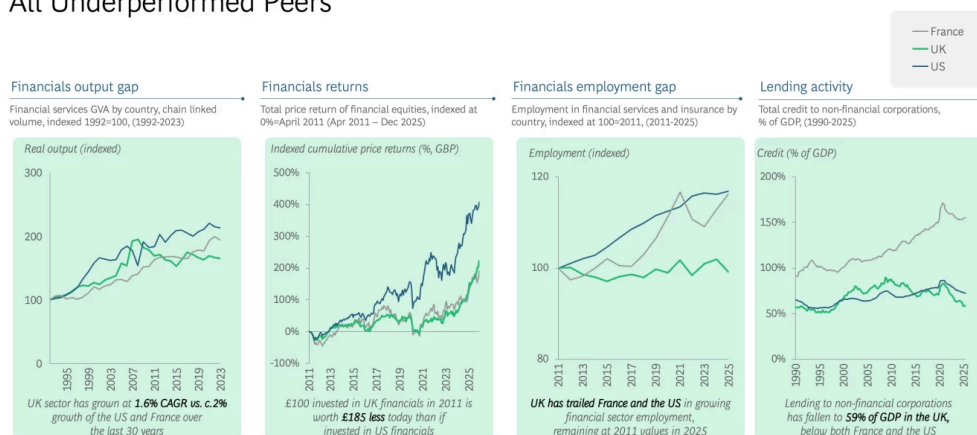
- **The UK has a vibrant fintech sector:** It has created 40 unicorns in 20 years – more than China, India and Brazil – and fintech valuations account for 22% of UK financial services market capitalisation, compared with 13% in the US.<sup>6</sup>
- **The UK is the second-most attractive destination for top talent globally:** It attracts 8% of internationally mobile AI experts who moved to the UK in 2025.<sup>7</sup>

## What's Gone Less Well

These strengths have not translated into continued domestic economy dynamism. The chart below captures the four dimensions of simultaneous underperformance – output, returns, employment; and lending. It also demonstrates how each has diverged from US and French peers since the GFC.

### EXHIBIT 2.1

The Performance Gap: Output, Returns, Employment and Lending Have All Underperformed Peers



Sources: OECD; Refinitiv; OECD STAN; FRED; ONS; Eurostat; BIS; BCG analysis.

- **Business lending has seized:** Total lending to private non-financial corporations has returned to levels last seen in 1998, standing at 59% of GDP in Q3 2025, with both bank lending and other forms of credit having fallen as a share of GDP. SME loans have almost halved as a share of GDP since 2011.<sup>8</sup>
- **Productivity growth has stalled:** The sector's contribution to aggregate productivity growth has flipped from +3.5% pre-2008 to -1% in 2019–2024, meaning it is now actively dragging down UK productivity growth.<sup>9</sup> A more sector-specific productivity metric – annualised change in assets per employee (inflation-adjusted with CPI) – has been zero for the past five years in the UK compared with 1% in the US.<sup>10</sup>

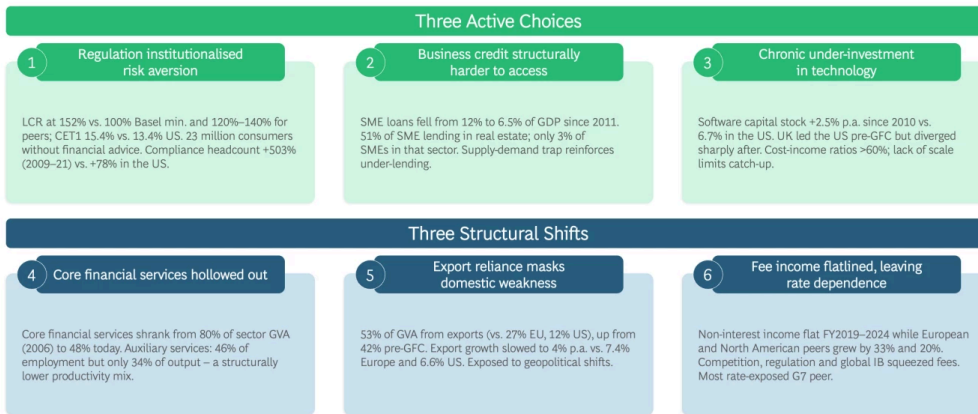
- **Shareholders have lost out:** If £100 was invested in UK financial services stock in April 2011, its total value would be worth £185 less by the end of 2025 than if invested in US financials and £108 less than if invested into UK industrials.<sup>11</sup>
- **Employment has declined:** Jobs in UK financial services have fallen 1% since 2011, while the equivalent employment has grown 17% in the US and 16% in France. Assets per employee, however, have remained static in the UK.<sup>12</sup>
- **Capital is not flowing where it is needed.** 53% of total pension fund allocation was invested in UK equities in 1997 compared to 4% in 2022 and 82% of US pension funds allocated to equities.<sup>13</sup> UK households have the lowest share of personal wealth held in equities and mutual funds in the G7, at 8%.<sup>14</sup>

## Why Has This Happened?

There is no single cause for the sector's underperformance. To begin, the original shock of the GFC was never fully addressed. Direct government ownership of RBS and Lloyds embedded public accountability and risk aversion into the governance of systemically important institutions for much of the 2010s. This was then compounded by a series of choices and structural shifts, as well as further shocks. While post-Brexit EU onshoring was smaller than feared – ~7,000 jobs relocated by 2022 versus 75,000 forecasted<sup>15</sup> – it still had an impact and will continue to do so as EU authorities push for more activity to be located in the EU. The COVID-19 pandemic and the subsequent energy price shock depressed borrowing further. At each stage, recovery has become harder. But change is possible if these underlying drivers are addressed.

EXHIBIT 3

Three Active Choices and Three Structural Shifts Explain the Sector’s Struggles



Sources: BCG analysis of ONS, BIS, EU KLEMS, Bank of England, Refinitiv data.

# Three Active Choices Have Constrained Growth

## Regulation was recalibrated for resilience but not updated for growth

New regulation after the GFC strengthened the sector’s resilience but institutionalised a bias towards removing all risk over growth. The system-wide UK LCR stands at 152% in 2025, far above the 100% Basel minimum and the 120–140% seen in US and EU peers.<sup>16</sup> The UK’s CET1 ratio is 15.4%, two percentage points above the US (13.4%). If UK banks reduced capital buffers to US levels – still within requirements – this could release up to £440 billion in capital, which could be channelled towards lending.<sup>17</sup> Meanwhile, consumer regulation has resulted in 23 million consumers going without financial advice.<sup>18</sup> Compliance and quality-assurance headcount rose 503% from 2009–2021, before settling at 208% of 2009 levels.<sup>19</sup> This compares to just 78% growth in the US.<sup>20</sup>

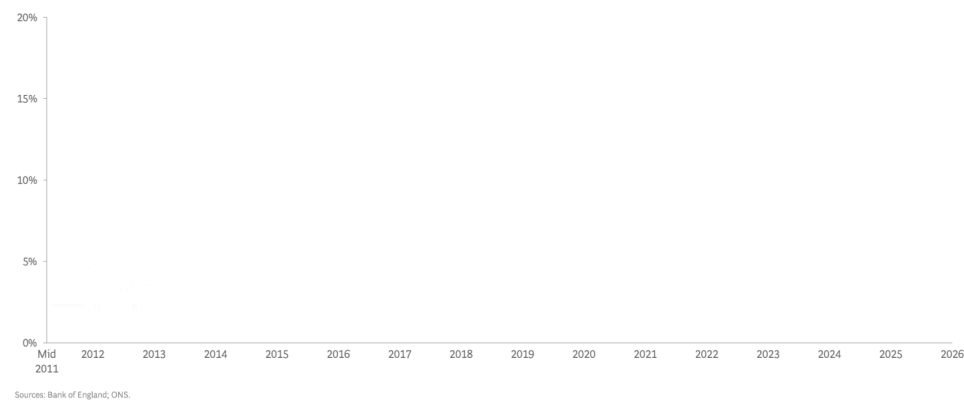
## Business credit has become structurally harder to access

UK businesses are caught in a self-reinforcing credit trap. Businesses seek credit less readily because they expect rejection; lenders pull back because they see insufficient demand. Both sides have rational reasons to behave as they do – but together, this has resulted in total lending to SMEs falling from 12% of GDP in mid-2011 to 6.5% in 2026.<sup>21</sup> It has also become even more concentrated, with the share of lending to SMEs in the real estate sector rising from 39% in 2016 to 51% in 2026 – despite only 3% of total SMEs operating in the real estate sector.<sup>22</sup> The reasons for this appear two-fold. First, it is expensive and time-consuming for banks to find, vet and onboard smaller borrowers. Second, regulatory constraints require banks to hold more capital against loans to these businesses because they are harder to assess – many lack the physical assets that banks traditionally use as security.

**EXHIBIT 4**

**Outstanding Loans Have Decreased Across All Business Sizes, With SMEs Suffering the Largest Rate of Decline**

Monthly outstanding loans held by SMEs and large businesses in the UK (% of nominal GDP, not seasonally adjusted)



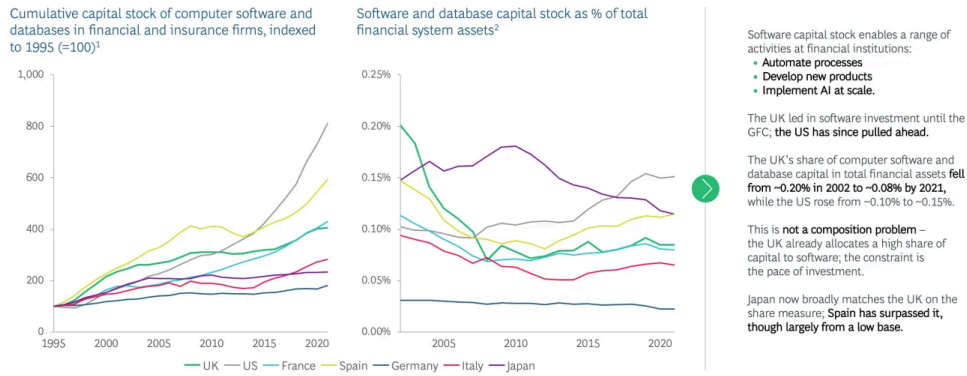
**Technology underinvestment leaves UK firms exposed to the AI era**

In the early 2000s, because of its relatively advanced integration of technology, the UK financial services sector had the highest level of capital stock in software and databases of any advanced economy. However, the capital stock of computer software in UK financial services has grown at a rate of just 2.5% a year since 2010. This compares with 6.7% in the US – meaning total US stock has almost doubled in a decade, while the UK equivalent grew by just 30%.<sup>23</sup> The UK now lags the US, Japan and Spain in terms of capital stock of software and databases as a share of total assets. The divergence since 2010 is a direct consequence of the active choices described above. This gap means UK firms are entering the AI era further behind than many peers.

Why has this happened? High costs and legacy tech stacks are common across the sector in different countries. But UK banks tend to have higher cost income ratios than most, regularly over 60% of income.<sup>24</sup> Furthermore, the UK lacks the scale of the US market or the rapid growth of some smaller economies, both of which make developing economies of scale challenging.

**EXHIBIT 5**

## US Financial Services Have Pulled Ahead on Computer Software and Database Capital Stock Since 2010



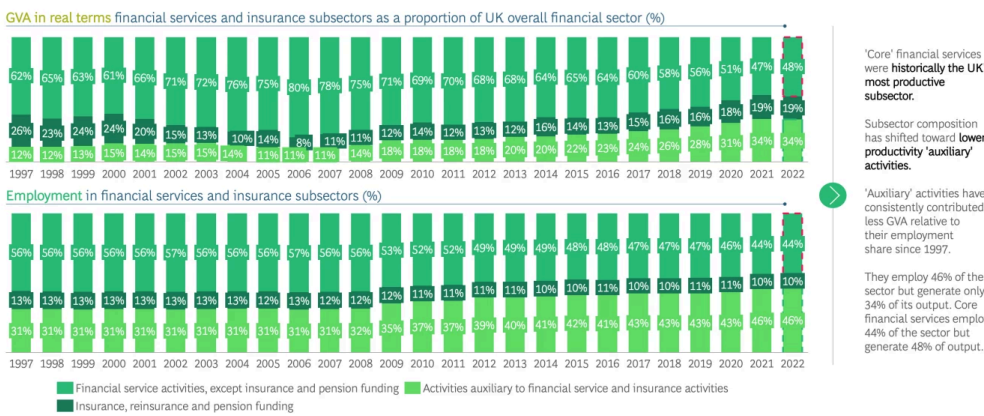
1. We use computer software and databases as opposed to overall intangible assets to ensure goodwill is not included. 2. K\_Soft\_DB (NAACE K) as % of total financial system assets (FSB); KLEMS national currency converted to USD at end-2023 exchange rates. Sources: EU KLEMS 2024 release; FSB Global Monitoring Report on Non-Bank Financial Intermediation (Oct 2025); BCG analysis.

# Three Structural Factors Have Caused The Sector To Stagnate

The most productive part of the sector has been quietly hollowing out. Core financial services have shrunk from 80% of sector gross value added (GVA) in 2006 to 48% today.<sup>25</sup> The shift matters because auxiliary services employ 46% of the sector but generate only 34% of its output.<sup>26</sup> Auxiliary services have not yet reached the scale and/or efficiency of core financial services, meaning a structurally lower level of productivity.

**EXHIBIT 6**

## UK Relies on Less Productive 'Auxiliary' Sector As Core Financial Services Declines



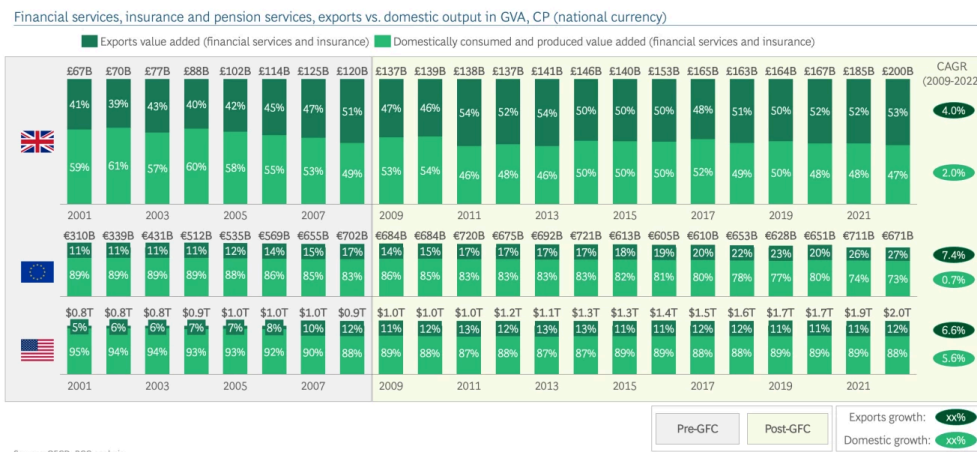
Auxiliary financial services are defined as activities related to financial intermediation, but which do not involve financial intermediation themselves. e.g. insurance brokers, investment advisors and corporations providing infrastructure for financial markets. Sources: OECD; BCG analysis.

## Export success has masked domestic weakness but also raises new risks

In 2022, 53% of the sector's GVA came from exports, up from 42% pre-GFC and far higher than the EU's 27% and the US's 12%.<sup>27</sup> Export growth has also been slower, at 4% annually since 2009 versus 7.4% in Europe and 6.6% in the US. The domestic market has been effectively de-prioritised due to lack of growth, but this also leaves the sector exposed to trade and geopolitical shifts.

### EXHIBIT 7

## UK Is Relatively Much More Reliant on Financial Services Exports Than US or European Peers, but Exports Have Grown More Slowly Too



## UK banks are now more dependent on interest rates than any G7 peer

Where European and North American banks have sustainably increased their combined net interest income (NII) and non-interest income at a respective 5.3% and 4.2% annually, UK banks have managed only 1.5%.<sup>28</sup> This is driven by a lack of non-interest income growth. Between FY19 and FY24, non-interest income at the UK's largest banks essentially flatlined, while European and North American peers grew theirs by 33% (\$48 billion) and 20% (\$56 billion) respectively. Though as a share of assets, fee income has fallen across most geographies. This has also led to the sector in the UK pushing for higher net interest margins. The FCA has found that the weighted average net interest margins of the big nine firms reached 2.76% on retail business.<sup>29</sup> The result is a sector more exposed than any G7 peer to a rate environment it cannot control.

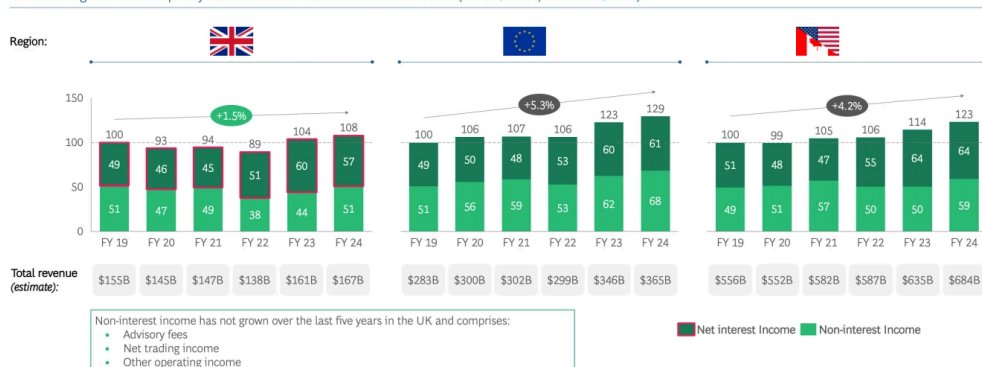
So, why has this happened? Fee income has been squeezed by competition and regulation. Global investment banks have claimed market share of high value advisory services, while fintech challengers have taken some of the low-value, high-volume services. Consumer protection regulations, while necessary, have gone beyond their stated goals and had the unintended consequence of causing some firms to remove client offerings. The result is a reduction in various services, such as mass-market wealth advisory, and a reduction in fee income. At the same time, operational costs have been rising. For example, the UK is the only OECD economy where banks' operational costs as a share of overall assets have consistently risen over the past five years. In short, efficiency has worsened, not improved.

The overall result is a sector that enters a period of profound technological disruption already on a downward trend – high cost bases, a hollowed-out domestic lending engine and fee income that has flatlined.

**EXHIBIT 8.1**

**The UK's Largest Banks Have Not Grown Revenue As Quickly as Peers and Have Become Over-Reliant on Net Interest Income**

Revenue of global banks<sup>1</sup> split by income from interest vs. non-interest fees (FY2019-2024, index 2019=100)



1. Peer set of c.40 banks which jointly account for >50% of market cap of banks in respective continents, UK banks include HSBC, Barclays, Lloyds Banking, NatWest and Standard Chartered. Sources: Company annual reports, BCG analysis.

# What the UK Must do to Unlock Growth

Returning the sector to growth and its role in supporting the wider economy to grow means not only addressing these historic challenges but also positioning to take advantage of emerging megatrends in the sector. Three such megatrends are reshaping the sector and will drive future growth globally.

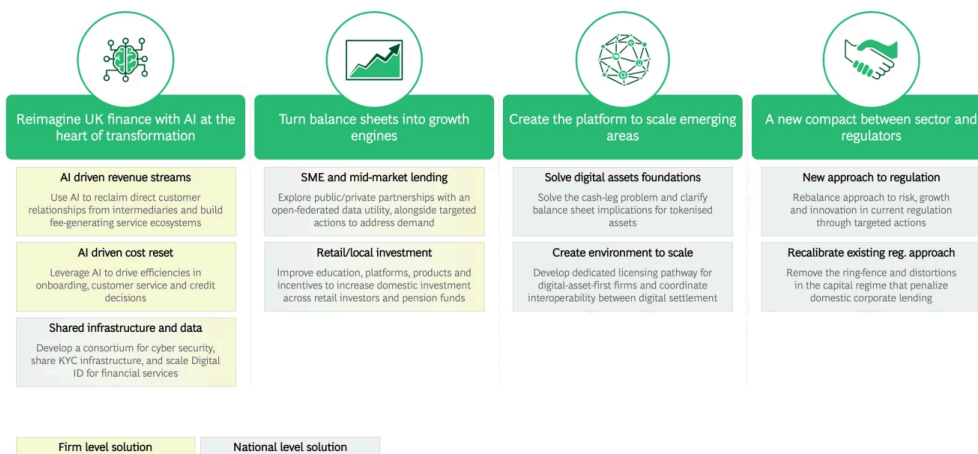
- **Megatrend 1: Agentic AI presents significant opportunities to re-imagine workflows and boost productivity.** By providing the ability to recapture and expand customer relationships, it in turn builds new revenue streams.
- **Megatrend 2: Digital assets are challenging the existing financial infrastructure.** Stablecoins, deposit tokens and real-world asset tokens can offer a variety of benefits, which include faster and cheaper rails for moving value, improved market access to financial products and speeds up institutions' abilities to offer new products or enter new regions.
- **Megatrend 3: Alternative providers of services are disrupting the banking model.** Non-bank financial institutions and technology-led challengers are reshaping the infrastructure and

processes within the sector. While this began with the arrival of neobanks and fintechs, the next phase is more structural in nature. The emergence of super apps – platforms that bundle banking, insurance, commerce and lifestyle services – can fundamentally redefine what it means to be a bank.

These trends share a common feature: they reward early movers and penalise hesitation. The countries and firms that define the infrastructure standards, licensing frameworks and customer relationships of the AI and digital asset era will be difficult to displace. For the UK, acting now means building on existing strengths such as deep capital markets, world-class talent and a functioning sandbox regime. These megatrends represent a fork in the road: lead them and recover lost ground or remain reactive and fall further behind. There must be coordinated action across the four pillars below and require action both at a government and firm level.

**EXHIBIT 9**

**Restoring UK Financial Services Growth and Competitiveness: Four Pillars**



# Reimagine Finance with AI at the Heart

Three-quarters of UK financial services firms now use AI in some form, but this is almost entirely in back-office automation. The customer relationship, fee income and competitive position against intermediaries remain largely untouched. This is backwards. The most urgent AI opportunity for UK firms is not cost reduction, it is revenue growth.

The risk for UK firms is not that AI fails to deliver. It is that US and Asian competitors, who are already ahead of the UK when it comes to the technology and software stack, are capturing productivity gains at a faster pace.

Three coordinated actions are necessary to put AI at the heart of UK financial services: firstly, shared infrastructure, which the government and regulators are responsible for; followed by

efficiency; and finally, revenue growth.

## Develop shared infrastructure

AI transformation on a company-by-company basis is necessary but insufficient. Shared infrastructure can reduce duplicative costs, enable AI applications that no single firm could build alone and strengthen the UK's collective position. This national-level action will help underpin and maximise the impact of individual firm-level action.

- **FCA data guidance:** The FCA should publish targeted guidance clarifying that proactive, AI-driven personalised engagement using a customer's own transaction data is consistent with Consumer Duty, provided it meets the customer's best interests test. Without this, banks will continue to sit on data assets they cannot fully use.
- **Shared digital identity:** A cross-industry consortium should develop a digital identity infrastructure for financial services, building on the Centre for Finance, Innovation and Technology's (CFIT) Digital Company ID work, with a retail equivalent working to the same timetable.
- **Cyber consortium:** A cross-industry consortium should extend the Financial Sector Cyber Collaboration Centre (FSCCC) model to voluntarily include shared threat-detection AI and pooled anonymised attack data. This should have a published capability target by the end of 2026.
- **Shared KYC utility:** The FCA should commission a focused shared Know Your Customer (KYC) utility for the highest-friction part of the process – beneficial ownership verification and real-time Anti-Money Laundering (AML) screening – with a design specification published by Q1 2027. This is not an all-or-nothing proposition. Even partial standardisation of these two elements would materially reduce onboarding costs across the sector.

Competing countries are already forging forward. Singapore's MyInfo system already provides permissioned access to government-verified identity data for financial onboarding. The question is not whether shared infrastructure pays – it demonstrably does – but whether the UK builds it deliberately or by accident.

## Deliver rapid efficiency gains

Leveraging AI in financial firms from banks to asset managers, in areas such as investment and trade execution through to HR, can significantly reduce operating costs,<sup>31</sup> but only if firms move beyond pilots. Several proven examples are already emerging:

- **KYC/AML automation can deliver significant cost reductions and improve onboarding times:** AI-powered KYC automation can reduce onboarding costs by up to 70% and cut processing times from days to minutes for standard-risk customers.<sup>32</sup>
- **Deploy GenAI contact centre capabilities across all customer channels:** This should start with call summarisation and agent assist before moving to autonomous resolution.
- **Leverage AI-driven credit underwriting to transform lending efficiency:** This can deliver higher accuracy in predicting defaults, a significant reduction in time-to-decision and lower processing costs, particularly for commercial lending.
- **Deploy more granular, AI-powered credit models to expand the addressable lending market:** This would enable banks to accurately assess risk in underserved segments (e.g. smaller SMEs, asset-light businesses). It would also make lending viable at smaller ticket sizes, where traditional cost structures are prohibitive.
- **Reimagine customer service with AI:** This includes both client self-service experiences driven by AI and using AI to support and underpin client services. One large asset manager that adopted such an approach saw a 30% reduction in OpEx, a 30% reduction in customer call volume and a 25% decrease in average time to handle customer service request.<sup>33</sup>

Efficiency gains matter. Not just for margins but for competitive positioning. For example, a bank that has automated its cost base can price SME lending competitively.

## Drive new revenue growth

The disintermediation problem identified in Section 2 can be solved through AI, but it requires firms to act now.

For UK banks, the stakes are unusually high. With 90% of mortgages now originated through brokers<sup>34</sup> and neobanks holding over 20% of new primary banking relationships,<sup>35</sup> the direct customer relationship has already been partially lost.

From banks to asset managers the opportunity is clear: AI can make it commercially viable to serve clients at price points and in markets that were previously uneconomic.

There are three practical shifts that can already become part of this process:

- **Reclaim mortgage origination:** A shift from broker dependence to real-time, pre-approved offers triggered by behavioural signals, not calendar-based campaigns.

- **Democratise wealth advice through a tiered approach:** Develop tiered AI-powered advisory, from an automated mass-market to an augmented human for high net worth – making the direct relationship more valuable than the intermediated one.
- **Build ecosystem apps:** Leverage existing customer bases (millions of customers who open their app daily, trust the institution with their money and have already passed identity verification) to offer integrated third-party services, such as insurance, travel, utilities, telecoms and local commerce. Earn fee income on each transaction and deepen engagement so the app becomes indispensable to daily life. We already see this happening. Revolut’s net revenue from customer fees reached £2.7 billion in 2025, overtaking all the UK’s main banks.<sup>36</sup> Belgium's KBC has integrated 15 third-party services into its banking app,<sup>37</sup> including public transport, parking, cinema, telecoms and fuel. India's ONDC has done the same for commerce by developing an open-protocol network that extends banks' role from a payment processor to a marketplace operator.

Finally, government also has a critical role to play in incentivising investment in AI by financial firms, given the significant wider economic benefits and the sector’s current lag. One option would be to fully expense AI-related capital investment and extend the existing regime to intangible AI assets such as software and data infrastructure. This helps to directly address the timing mismatch that discourages upfront investment.

## — Key Actions — AI Pillar

Government / FCA	Industry
Publish FCA guidance on proactive transaction data use (Q2 2026)	Deploy AI-driven revenue strategies – not just back-office automation
Mandate shared digital identity infrastructure	Build or join ecosystem app platforms
Mandate FSCCC extension with capability target (end-2026)	Participate in shared cyber consortium
Provide for full expensing of AI related intangible investment in Finance Bill	Adopt shared KYC standards as default
Commission shared KYC utility design spec (Q1 2027)	—

# Turn Balance Sheets into Growth Engines

The UK financial services sector provides £3.9 trillion in lending to the non-financial economy<sup>38</sup> and has the second-largest capital markets globally. However, almost none of it flows to established SMEs, mid-market companies or domestic equities. This is not due to a shortage of capital; it is a failure of plumbing. There are two issues that, if solved, would address this. One is a structural market failure requiring a new public-private mechanism; the other is a behavioural and incentive problem requiring four interlocking levers.

## Public-private growth credit platform and SME credit passport

The supply gap for established SMEs and mid-market companies – too large for start-up schemes, too small or asset-light for conventional bank lending – requires a dedicated mechanism.

We propose a permanent public-private growth credit platform, built within the British Business Bank (BBB), or elsewhere if so required.

It would target established SMEs and mid-market firms with revenue and tax records but limited hard collateral. The platform would not replace private lenders; it would reduce the cost of underwriting and monitoring and provide partial risk sharing on eligible portfolios.

This is not a new idea. BBB has two programmes that point in the right direction – ENABLE guarantees and Growth Guarantee Scheme – but neither goes far enough. ENABLE is too narrow in scope; the Growth Guarantee Scheme is capped at £2 million. A new platform should operate at scale, with delegated portfolio guarantees for smaller standardised lending and a hybrid co-lending model for larger mid-market credits. This would fall in line with European Investment Bank, Kreditanstalt für Wiederaufbau and Bpifrance best practices.

The platform's effectiveness depends on data. We propose a federated open-finance data utility providing lenders with permissioned access to HMRC VAT, HMRC tax data and filed accounts, at the minimum. Over time, this should extend to include bank transaction data, accounting software data, invoice and payment data and a digital identity layer. The objective is standardised, reusable, monitorable data.

The aim of such a platform would be to provide additional lending to viable firms on better terms, not blanket state support. Lenders must retain meaningful risk, guarantees must be priced and capped and performance must be published transparently against clear tests of additionality, defaults and recoveries.

On the demand side, the mirror image of the data utility is a statutory SME Credit Passport. A standardised, consent-based digital credit profile combining CRA data, Open Banking transactions, HMRC filings and Companies House records into a single portable document that any lender can accept. Together, the data utility and the Credit Passport eliminate the information asymmetry at both ends: lenders receive standardised data they can act on, while borrowers get a portable profile.

## Retail and pension investment

Solving this does not require mandates, but four interlocking levers:

- **Education:** Embed education at the point of ISA subscription or other investment decisions. The FCA should require platforms to display long-run real return comparisons between Cash and Stocks & Shares ISAs. Employers can improve direct access to investment – for example, through integration of Stocks & Shares ISAs with payroll – as is already offered by some major providers. Reform consumer regulations to facilitate targeted advice to help increase financial knowledge among underserved mass consumers.
- **Platforms:** Reduce frictions for consumers in accessing different investment platforms. The recent FCA targeted support rules are a good start in this space, though there continues to be quite a bit of process and nervousness, which may delay their usage.<sup>39</sup> The FCA should publish quarterly uptake data and set an explicit participation target for major retail banks by the end of 2026. Reform could go further by allowing banks to act as regulated distribution platforms for third-party investment products and advisers. This would require targeted Consumer Duty reform to delineate responsibility and ring-fencing reform to permit hosting third-party investment access, with Open Banking as the existing precedent.
- **Products:** Allow individuals a voluntary choice if they want to invest into UK assets. Workplace pensions should offer UK-weighted default funds, as either opt-in or opt-out. This builds on the Mansion House Accord's 5% domestic private markets commitment, with performance accountability built in.
- **Incentives:** The most direct lever available is a Capital Gains Tax (CGT) exemption on domestic equities, drawing on the principle behind the existing exemption on gilts. We propose that gains on UK-listed equities held for five years or more by investors currently subject to CGT be exempt, with an annual £100,000 cap on qualifying gains. The fiscal cost is likely manageable since the cap ensures the small number of very large disposals, which

generate the majority of CGT revenue, remain fully taxable and levels of UK retail equity ownership is low. This must sit alongside reforms to investment advice regulation and platform distribution in order to expand the pool of equity investors. But the signalling effect that the government regards long-term investment in UK companies as a public good is significant.

## — Key Actions — Balance Sheet Pillar

Government / HMT	Regulator (FCA/PRA)	Industry
Implement BBB growth credit platform	Provide prudential recognition for guarantees	Deploy AI-driven SME underwriting
Build federated data utility	Commission shared KYC utility spec (Q1 2027)	Partner with BBB as lenders
Create statutory SME Credit Passport	Set targeted support participation target (end-2026)	Adopt Credit Passport as standard
CGT exemption on domestic equities (retail, tapered)	Publish quarterly targeted support uptake data	Offer UK-weighted default pension funds

Together, these actions can help to unlock significant pools of capital and drive greater investment in the UK.

## A Platform to Scale Digital Assets

The UK has a narrow but closing window in which to become the leading jurisdiction for institutional digital asset infrastructure. Sterling is a global reserve currency. London hosts a concentration of tokenisation infrastructure providers. The Digital Securities Sandbox (DSS) completed the first tokenised intraday gilt repo in early 2026.<sup>40</sup> BCG and Ripple project the

market for tokenised assets will grow from roughly \$0.6 trillion today to \$18.9 trillion by 2033, at a 53% CAGR.<sup>41</sup> Furthermore, for UK banks, tokenisation directly addresses three of the structural weaknesses already identified. Tokenised deposits and programmable stablecoins diversify fee income away from net interest margin; fund and bond tokenisation reduces the operational cost base; and tokenised gilts create new distribution rails for UK assets.

But without a firm timeline or clear regulatory direction, UK-based firms will relocate. The issue is no longer whether this will happen – it has already begun – but whether the UK can act before rival jurisdictions’ network effects harden into a self-reinforcing advantage.

Four unlocks, each building on work already underway, would convert the UK’s position into a durable lead. What has been missing is not ideas, but owners and clear timelines for delivery.

Together, these four unlocks are not a side bet on an emerging technology. They are a direct response to the structural weaknesses identified in Sections 1 and 2, delivered through the infrastructure of the next decade rather than the last.

- **Unlock 1: Solve the cash leg problem.** Without on-chain money, on-chain assets cannot scale. The UK does not need to pick a single form – wholesale CBDC, regulated stablecoins and tokenised deposits can coexist – but it does need to commit to a sequence and a timeline. The Bank of England should publish a multi-money roadmap by Q3 2026, with an initial production-capable layer, be it tokenised deposits within the DSS or stablecoin settlement, operational by end-2027. Switzerland has been running live wholesale CBDC settlement since late 2023.<sup>42</sup> Without this commitment, the unlocks below cannot deliver in full.
- **Unlock 2: Prudential and legal clarity.** Until there is clarity as to how tokenised assets sit on an institution’s balance sheet, they cannot be held at scale. Four specific items need resolving: coverage under the Financial Collateral Arrangements Regulations; UK EMIR margining treatment; HQLA eligibility for tokenised gilts and stamp duty/SDRT treatment of on-chain transfers. The PRA, FCA and HMT should issue this joint treatment note by Q2 2026. This would come ahead of the Financial Services and Markets Act (FSMA) cryptoasset regulations coming into force in October 2027 and would provide firms building toward that deadline with clarity on the prudential framework they are building into. This should ideally adopt the ‘same risk, same activity, same regulation’ principle, as the US federal regulators reaffirmed in March 2026.<sup>43</sup>
- **Unlock 3: A dedicated licensing pathway.** There is no purpose-built route for firms whose core banking systems are based on Distributed Ledger Technology (DLT), whose custody is on-chain, and where compliance is partly enforced by smart contracts. The FCA and PRA should establish a dedicated authorisation pathway for digital-asset-first firms by Q1 2027, with a published 90-day decision target for standard applications and an explicit fast-track for firms graduating from the DSS. This is not a lower bar but a different bar, calibrated to the actual risk architecture of these firms, rather than the legacy template. Switzerland’s DLT

trading facility licence and Singapore's graduated Payment Services framework show it can be achieved without compromising prudential standards.<sup>44</sup>

- Unlock 4: Coordinate interoperability.** Left uncoordinated, the multiple digital settlement platforms being built now risk exactly recreating the siloed, sub-scale liquidity pockets that tokenisation was meant to solve. HMT and the Bank of England should convene a formal industry working group by Q3 2026, with a published framework covering four elements: shared token standards compatible with ISO 20022; a common KYC/identity layer; atomic delivery-versus-payment across platforms; and a coordinated expansion of DSS usage caps to remove the existing volume ceiling that prevents pilots from becoming markets. The group should publish its framework by Q4 2026. The goal is not to create a single platform – it is a federated ecosystem where liquidity is shared, and infrastructure is interoperable, replicating what TARGET2-Securities did for European securities settlement.

Government and regulators cannot do this alone. UK banks and asset managers must make concrete commitments in parallel. At least three major institutions should commit to participating in the wholesale Central Bank Digital Currency (CBDC) or tokenised deposit pilot by end-2026; major institutions should join or launch a stablecoin (likely in EUR or USD) within the regulatory perimeter by the end of 2027; and the major banks should collectively commit to interoperability across their deposit-token networks rather than competing on proprietary rails. The infrastructure decisions made in the next 24 months will shape the competitive landscape for a decade.

Without such action, the UK risks becoming the world's most sophisticated digital assets laboratory running the most interesting pilots, while the durable infrastructure, the institutional relationships and the fee pools migrate to jurisdictions that committed earlier and with greater clarity.

## — Key Actions — Digital Assets Pillar

Government / HMT	Regulator (FCA/BoE/PRA)	Industry
Make DSS permanent by Q3 2026	Publish multi-money roadmap (Q3 2026)	Commit to CBDC/tokenised deposit pilot (end-2026)
Commission settlement layer design (Q2 2026)	Issue joint prudential treatment note (Q2 2026)	Join stablecoin project (end-2027)

Appoint digital asset infrastructure diplomat (Q2 2026)	Establish dedicated licensing pathway (Q1 2027)	Commit to deposit-token network interoperability
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## A New Compact Between Government, Regulators and the Sector

The three pillars above – AI, balance sheets and digital assets – all require action from firms. This fourth pillar is different. It requires a change in how government and regulators regard their role in relation to the sector.

Following the GFC, the implicit compact has been stability above all else, with growth as a secondary consideration if resources permit. That compact has succeeded on its own terms – the UK has one of the most resilient financial systems in the world. But it has failed on the terms that matter to the wider economy: lending, investment, productivity and growth. The House of Lords Financial Services Regulation Committee's finding of 'deeply entrenched risk aversion and high compliance costs unnecessarily constraining firms' is not a criticism of individual regulators – it is a description of a system optimised for the wrong objective. There has been progress in recent years. The Edinburgh and Leeds reforms have begun a shift towards focusing more on growth and innovation. While the secondary objective for financial regulators is broadly welcome, the reality is they will never be able to focus on growth (nor should they). Given this, other parts of the system and policy making process need to provide a counterbalance to drive growth and innovation.

The new compact is not deregulation. It is a reshaping. Stability remains non-negotiable, but growth becomes a shared responsibility with teeth – specific mechanisms, clear owners, published data and consequences when lending falls below what the economy needs.

### Business Lending Conditions Index with links to decision making

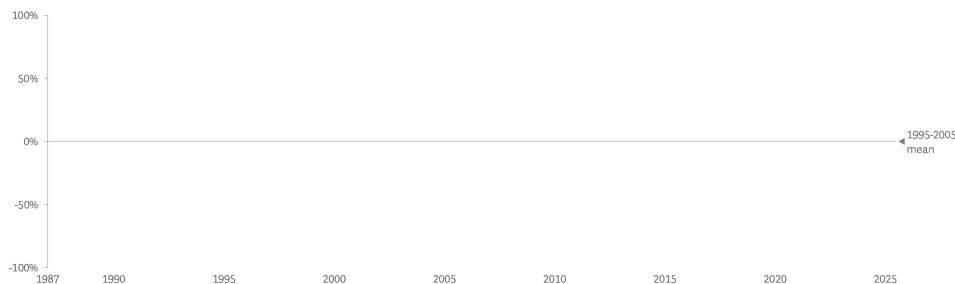
We propose a Business Lending Conditions Index – a published, quarterly measure that combines corporate credit to GDP and corporate debt servicing costs relative to historical norms. It should ideally also account for wider metrics of investment and liquidity in the economy. It should have a cumulative element to show persistent under or over lending. As of end-2025, both

credit-to-GDP and debt servicing costs are simultaneously below their long-run averages for the first time since the late 1990s – a clear signal of structural under lending, not cyclical caution.

#### EXHIBIT 10

### Business Lending Conditions Index: Both Credit to NFCs and Their Interest Burden Are Well Below Historical Mean, Showing Under Lending

Deviation from 1995–2005 mean, credit to non-financial corporations as a proportion of GDP and interest paid as a share of operating surplus (% deviation, 1987–2025)<sup>1</sup>



1. Zero = average level between 1995 and 2005. 2025 included up to Q3 only. Sources: BIS; ONS; BCG analysis.

The Index should be published by the Bank of England's Financial Policy Committee, alongside its existing Financial Stability Report.

Publication alone is insufficient. The Index should trigger a formal joint review between HMT, FCA, PRA and BBB whenever it falls below a defined threshold for two consecutive quarters – with a published response within 90 days setting out what action will be taken and by whom. This mirrors the Financial Policy Committee's (FPC) macroprudential tightening toolkit. Just as regulators can tighten capital requirements when credit is overheating, there should be a mechanism that compels action when credit underperforms relative to historical norms and what is economically necessary.

## Post-implementation and cumulative impact assessments

UK regulators undertake cost-benefit analysis when making new regulations. But this almost always happens on a policy-by-policy basis, missing the cumulative effect of overlapping requirements. The House of Lords' 'Growing Pains' report in June 2025 identified this gap explicitly. Two specific changes would close it:

1. The FCA and PRA should publish an annual cumulative regulatory burden assessment – a single document that quantifies the combined compliance cost of all regulations introduced in the preceding three years. This builds on the Regulatory Grid Initiative which has brought

greater forward-looking transparency to the regulatory pipeline. While that is a welcome addition to looking at the flow of regulations and helps in allowing firms to plan, it is also important to review the overall stock/burden of regulation and ensure that those that have been implemented have had the expected impact.

2. All major new regulations should include a mandatory post-implementation review at 24 months, with results published and fed back into the next Cost Benefit Analysis (CBA) cycle.

## Accelerate regulatory approval timelines

Recent reforms, including shorter statutory targets, the joint FCA/PRA Scale-Up Unit and a provisional licence regime in development, have moved authorisation timelines in the right direction, with more than 99% of FCA cases now meeting statutory deadlines. The competitive question is whether implementation delivers the spirit of these reforms, not just the metrics. Two key changes would help close the gap:

- **Reduce the interpretive friction that drives clock-stops.** New deadlines run only from when an application is deemed complete, and most pauses arise from regulator judgements on business plans, governance, projections and outsourcing – not missing forms. The FCA and PRA should publish quarterly anonymised case examples and a structured FAQ on the most common reasons for clock-stops by sector, building on existing pre-application support.
- **Publish median end-to-end application timings inclusive of clock-stop periods, by firm type.** Current metrics measure performance against statutory deadlines, which exclude time the clock is paused, masking the real-world experience that drives costs and time to execution.

## Expand scale-up out of sandbox

At present, any firm exiting the sandbox successfully still defaults to the same approval and authorisations processes. The sandbox is the UK's strongest innovation asset. Making it a genuine pipeline to scale, rather than a well-resourced dead end, is one of the lowest-cost, highest-impact changes available. Three specific changes would help achieve this:

- Firms graduating from the FCA sandbox with a clean track record should receive automatic expedited authorisation review – a dedicated queue, not a different standard.
- The FCA should publish an annual list of sandbox innovations it is actively seeking to scale, with clear owners responsible for shepherding them through authorisation.

- HMT should set a published target: at least 50% of firms successfully completing the sandbox should reach full authorisation within 12 months of exit, with the FCA reporting annually against this metric.

## Recalibrate the ring-fence

Ring-fencing has served its purpose. Introduced to protect retail deposits from investment banking losses, the ring-fence was designed for a world before the UK's resolution regime – the Special Resolution Regime, MREL, bail-in and recovery planning – was fully operational. That regime is now mature. By the end of 2026, the PRA should publish a formal assessment as to whether the resolution regime has reached the threshold at which the ring-fence becomes redundant – with a published legislative timetable to remove it if it has. Ring-fencing imposes real costs – it fragments capital, complicates group structures and limits the ability of UK banks to compete with US and European peers who operate without it. If the resolution regime achieves the same protective effect at a lower cost, removing the ring-fence is empirically the best approach.

## Remove distortions in capital regime that penalise domestic corporate lending

Three specific recalibrations would materially improve lending capacity without compromising systemic resilience:

- **Overlapping buffer stacking.** How the countercyclical buffer, the O-SII buffer and the extra capital charges for domestic concentration risk work together should be reviewed holistically, as a single, coherent package. The combined effect penalises UK-focused lending relative to international activity at present. This is the opposite of what growth-oriented regulation should do.
- **Buffer usability.** Banks are reluctant to draw on capital buffers in stress because of the stigma and automatic distribution restrictions that follow. A buffer that banks will not use is a permanent tax on lending capacity, not a genuine safety mechanism. The PRA should reform trigger mechanisms and communication to make buffers genuinely usable.
- **Leverage ratio cliff edges.** The leverage ratio has become binding for more banks than originally intended, particularly those focused on retail and SME markets. It should be recalibrated to prevent cliff-edge effects for banks crossing balance-sheet thresholds as they grow their SME and mortgage books – penalising growth at exactly the moment it should be encouraged.

The compact runs in both directions. In return for recalibrated regulation, faster authorisations and a growth-oriented index, the sector must commit to shared infrastructure participation and digital asset deployment at scale. This will only tangibly improve growth if both sides play their part.

## — Key Actions — New Compact Pillar

Government (HMT)	Regulators (FCA/PRA/BoE)
Commission Business Lending Conditions Index (FPC as publisher)	Publish quarterly BLCI with defined threshold and mandatory review trigger
Set compliance headcount reduction target by 2030	Publish annual cumulative regulatory burden assessment
Set mandatory 24-month post-implementation review requirement for all new, major regulations	Publish results of implementation review and feed back into the next CBA cycle
Set legislative timetable for ring-fence removal (subject to PRA assessment)	Publish resolution regime adequacy assessment (end-2026)
Set 50% sandbox-to-authorisation target	Publish binding 90-day authorisation SLA with quarterly reporting
—	Review overlapping capital buffer stacking as a package
—	Recalibrate leverage ratio cliff edges for SME/mortgage lenders

The tension at the heart of the UK’s financial services sector is simple. While on the surface the UK can still be considered a world leader, a variety of factors that underpin this historic strength are being steadily eroded.

The window in which to act exists, but it is not unlimited. Decisions being made relating to infrastructure on digital asset settlement rails, AI-driven customer relationships and the regulatory frameworks will determine where firms base themselves and will be difficult to reverse once network effects take hold. Singapore, Switzerland and the post-GENIUS Act United States are not waiting. The firms choosing Dubai over London are not doing so because UK regulation is stricter; they are doing so because UK timelines are longer and less predictable. That is a solvable problem. But it requires active decision-making to solve it.

This paper has set out four pillars of action. None requires a fundamental redesign of the existing regulatory architecture. None requires the UK to abandon the hard-won resilience of the post-GFC framework. What they require is a change in orientation – from a system that manages risk as its primary purpose to one that treats growth and stability as joint objectives, with specific mechanisms to deliver both.

The ask is not for a grand strategy. It is for a series of specific decisions, with clear ownership, published timelines and measurable outcomes.

The virtuous circle between a thriving financial sector and a growing economy is not broken beyond repair. But it will not fix itself. The diagnosis is clear, the tools are available, and the moment is now.

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