



The UK – world-class in financial services

Vital support for the economy

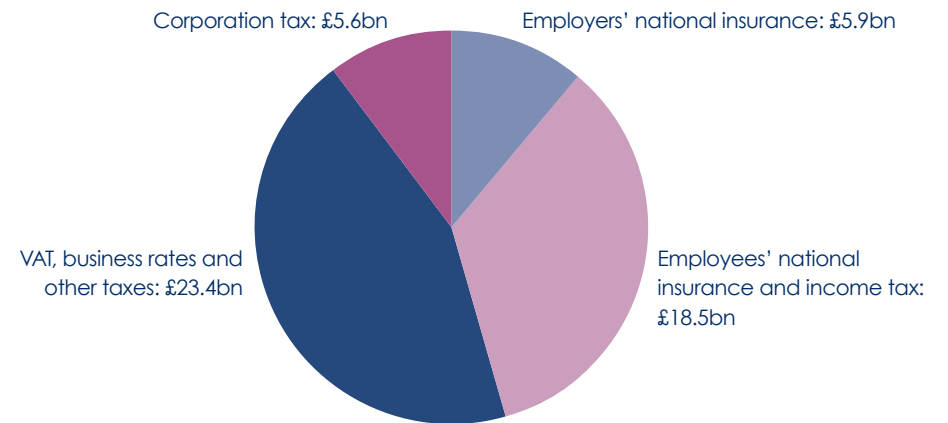
The financial services sector – which includes banking, insurance, fund management and securities dealing – is one of the UK’s largest industries. It contributed £124bn to the UK economy in 2009, 10% of that year’s national output. Professional services closely connected to the financial sector such as accountancy, legal services, management consultancy and maritime services contributed a further 3.9%. That was a combined contribution of over £170bn – more than the £140bn output of the entire UK manufacturing sector.

The contribution of financial services to the UK economy is higher than the US share of 8.4% and Japan’s 5.8% – and much higher than in France and Germany where financial services

contribute 5.1% and 4.3% to GDP respectively. This is not because the British use more financial services: it is because the UK is a leading provider of financial services globally. Over many centuries, the UK has acquired significant competitive advantage in providing financial services around the world because of the skills and experience of the people who work in the industry.

As a result, the UK is the world’s largest exporter of financial services, generating a trade surplus of £35.7bn in 2009-10. These exports – by British financial organisations and those from overseas which have chosen to operate in the UK – help offset trade deficits in other sectors such as manufacturing and tourism.

Tax contribution of UK financial services in 2010



Source: PricewaterhouseCoopers/City of London

Because of their success, UK financial services make the largest contribution to tax revenues of any sector. In 2009-10, the total came to £53bn, enough to pay for government spending on public order and safety, industry, agriculture

and employment. The industry pays £1 in every £9 collected by the exchequer, including 16% of the corporation tax collected in the UK last year and 15% of the income tax.

Perspective

Public spending

To put the £53bn tax contributed to the nation’s coffers by the financial and associated professional services industry into perspective, the government spending plans for 2011-12 included the following sums:

- Industry, agriculture and employment – £20bn
- Transport – £23bn
- Public order and safety – £33bn
- Defence – £40bn
- Education – £89bn
- Health – £126bn

Breadth and depth in financial services

Banking is the largest employer in financial and associated professional services, but hundreds of thousands also work in insurance, accountancy, legal services and management consultancy, and tens of thousands in securities markets, fund management and maritime services.

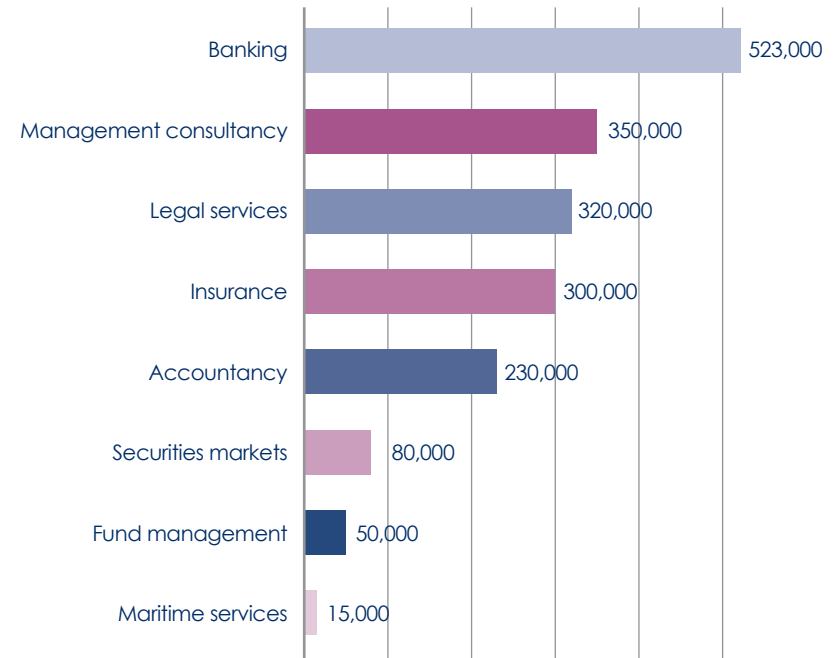
These broad totals do not, however, reflect the diversity of the services offered by these different sectors:

- The UK has become the leading European centre for hedge funds, providing them with all the banking and other support services they require for their complex transactions
- London is the largest global market for foreign exchange trading, and a centre for trade in commodity derivatives of all kinds

- The British Isles offer a world-beating range of services for private wealth management, serving many of the 10m-plus people worldwide who are classified as “high net worth individuals”
- Sovereign wealth funds are also attracted to London as a centre for managing the assets they have accrued from their wealth in commodities such as oil reserves and metal deposits.

Because of the skills of the people working in the sector and the talent attracted from abroad, the UK is also at the forefront of some of the most exciting developments in financial services such as Islamic finance and carbon trading.

Numbers employed in the main UK financial and associated professional services in 2010



Source: TheCityUK

Case Study

Islamic finance

Islam forbids its 1.6bn followers – nearly a quarter of the global population – from several financial practices such as the payment of interest, conventional insurance

and transactions involving excessive risk. The UK has become the key western centre for Islamic finance, developing Shariah-compliant financial services such as Islamic mortgages

and sukuk (Islamic bonds). There were 5 sukuk listings on the London Stock Exchange in 2010 and one in early 2011. Islamic funds managed in the UK have combined assets of \$300m.

Unrivalled professional services

The UK is a leading provider of many professional and support services associated with the financial services industry:

- **Legal services** generated £23.1bn in 2009, 1.8% of GDP, and exports of £2.9bn. The UK is one of two leading centres for international legal services, including corporate finance, corporate and commercial law and tax. Four of the ten largest global law firms are from the UK
- **Accountancy** contributed around 1% to GDP, with exports worth £724m. London is a leading international centre for accounting and related services, including audit, tax advice, corporate finance and business recovery services
- **Management consultancy's** share of GDP is around 1.4%, with net exports of £3.2bn in 2009
- **Dispute resolution.** The UK is a leading centre for international dispute resolution, resolving nearly 5,300 international disputes in 2009 – in addition to more than 29,000 disputes between parties predominantly in the UK
- **Education and training** by professional institutions, universities, business schools and specialist training firms. UK professional bodies, which include accounting, actuarial and insurance institutes, have 962,000 members, of whom 186,000 are overseas.

Case Study

First port of call for maritime services

Britannia may no longer rule the waves, but centuries of history have made the UK the financial and business services centre for the world's shipping industry. A comprehensive range of specialist maritime services

– including ship-broking, finance, insurance, ship classification, publishing and research – generated overseas earnings estimated at more than £2bn in 2008. The Baltic Exchange in the City of London is the

world's only independent source of maritime market information, whose international community of over 600 members encompasses the majority of world shipping interests.

The largest law firms in the world

2009/10	Headquarters	Gross revenue	Number of lawyers
Baker & McKenzie	International	\$2,112m	3,949
Skadden, Arps, Slate, Meagher & Flom	New York	\$2,100m	2,062
DLA Piper	International	\$1,948m	3,937
Clifford Chance	International (UK)	\$1,879m	3,096
Linklaters	International (UK)	\$1,853m	2,562
Latham & Watkins	National (US)	\$1,821m	2,141
Freshfields Bruckhaus Deringer	International (UK)	\$1,787m	2,279
Allen & Overy	International (UK)	\$1,644m	2,424
Jones Day	National (US)	\$1,520m	2,502
Kirkland & Ellis	Chicago	\$1,428m	1,457

Source: *TheCityUK, Legal Business, The American Lawyer*

Other contributions are made by a wide range of professional services firms, such as financial information and rating agencies, advertising and market research companies, recruitment agencies, financial publishers and software developers.

London – the world’s leading financial centre

London is ranked first in the Z/Yen Group’s 2011 Global Financial Centres Index – as it has been since the Index was launched in 2007. It is just ahead of New York, with Hong Kong and Singapore in third and fourth place.

London is noted for the breadth and depth of the services it offers, rated top in asset management, wealth management and private banking, and professional services. Its key areas of competitiveness are the people working in the industry, the business and regulatory environment, and the IT and transport infrastructure.

The City of London is home to many of the world’s leading markets:

- **The London Stock Exchange** – fourth largest by domestic equity market capitalisation
- **London International Financial Futures and Options Exchange (LIFFE)**, now part of the NYSE Euronext group
- **Lloyd’s of London** – the world’s foremost insurance market which provides specialist insurance services to businesses in more than 200 countries and territories

- **London Metal Exchange** – the premier non-ferrous metals market globally
- **ICE Futures Europe** – the leading fully electronic energy futures exchange and European Union emissions trading scheme futures market.

London is also a major international centre for dispute resolution, with the London Maritime Arbitrators Association, the London Court of International Arbitration and the International Chamber of Commerce (ICC) International Court of Arbitration.

Case Study

Streets paved with gold

London has the largest market in the world for gold and silver trading, and the one with the longest history. Over-the-counter gold and silver transactions around the world are conducted

through the “Loco London” market in which the two metals are traded for delivery in London. The London bullion market is a wholesale market operated by banks, refiners, shippers

and brokers trading with each other and their clients under the auspices of the London Bullion Market Association.

The world’s top international financial centres

Rank	Centre	Z/Yen rating*
1	London	775
2	New York	769
3	Hong Kong	759
4	Singapore	722
5=	Shanghai	694
5=	Tokyo	694
7	Chicago	673
8	Zurich	665
9	Geneva	659
10=	Sydney	658
10=	Toronto	658

*Ratings combine scores on the factors that contribute to a financial centre’s global competitiveness and the results of a survey of almost 2,000 international financial services professionals

Source: Z/Yen Global Financial Centres Index, March 2011

A powerhouse of talent

London has been a hub of global commerce for centuries – its location in Europe bridging the two other great time-zones of the Americas and Asia. With unrivalled depth of experience in financial and professional services, it is a magnet for talent from around the world.

The finance and insurance sectors employ more than 300,000 people in London, around a third of UK employment in these sectors. In addition, almost 500,000 work in professional services which are often associated with finance.

Many of these jobs are concentrated in two financial districts: the City of London, the Square Mile, where almost 317,000 work; and Canary Wharf in East London where 105,000 people are employed. Outside these two districts, another 130,000 or so work in finance and insurance in London, and 408,000 in professional services.

The City of London's financial and professional services sectors are estimated to have contributed £32bn to national output in 2010 – £1 in every £40 for the UK. For London as a whole, these sectors contributed £76bn to national output, almost 6% of the total.

London made an estimated net contribution to the nation's coffers of £1.4bn in 2009-10 – the amount by which tax revenues exceeded public expenditure in the capital. The recession meant that this was lower than in previous years when the net contribution was typically more than £10bn a year. Oxford Economics has forecast that after two more lean years, the net contribution could bounce back to as much as £27bn by 2015-16.

Employment in London in and around financial services in 2009

Sector	City of London	Canary Wharf	All London
Finance and insurance	134,600	50,400	315,200
Professional services	75,900	8,800	492,700
Administrative and support services	25,300	15,700	401,900
Wholesale and retail trade	15,500	3,300	537,300
Hotels and restaurants	14,700	3,600	292,100
Education	3,500	600	335,100
Transport and storage	3,000	1,700	212,700

Source: City of London

Case Study

The world in a city

Most of the world's largest banks have chosen to locate key parts of their international business activities in London. There

are 241 foreign banks with branches or subsidiaries in the UK which employ around 160,000 people, 40,000 of whom have a

foreign passport. Altogether, there are 1,117 financial services firms in the UK that are majority foreign-owned, from 78 countries.

The jewel in the crown

Financial and associated professional services make a vital contribution to the UK economy in terms of output, jobs, exports and tax revenues. However, the financial crisis that began in the second half of 2007 has raised questions about the industry's role, and whether it had become so large that it had left the UK with an unbalanced economy.

In fact, the contribution of financial and associated professional services to the UK economy over the last decade has been similar to that in the USA and other large economies which are also leading providers of financial services globally. The industry is one in which the UK enjoys a distinct competitive advantage because of the country's history and the skills of the people who work in it. It would be unthinkable to allow that global leadership to slip away at a time when demand for financial services is growing around the world.

Nor does the success of financial and professional services come at the expense of other industries, as has also been said. Britain leads the world in many sectors, including information technology, biotechnology, pharmaceuticals, aerospace, sophisticated engineering and media. All of these rely on sophisticated financial services for their success.

And under the Project Merlin statement agreed with the Treasury in February 2011, the major UK banks have agreed to support the economic recovery by lending UK businesses at least £190bn in 2011, up from gross new lending of £179bn in 2010. Included in this total is £76bn of new lending to small and medium-sized enterprises, up 15% from £66bn in 2010. Lending data published by the Bank of England in August 2011 showed that the banks involved were on target to meet their undertakings.

Everyone in the financial services industry recognises that, in certain areas, serious mistakes have been made. The people who work in the industry, regulators and politicians are striving to learn from such mistakes and are working hard together to avoid repeating them.

It is crucial that this is done as, without it, the industry cannot successfully fulfil its role as a significant and essential part of our economy, generating jobs and growth. And while certain types of innovation have been behind some of the mistakes over the years, responsible innovation – appropriately regulated – is essential in tackling the challenges the world faces.

Likewise, levels of remuneration also need to be set appropriately, focused on ensuring the recruitment and retention of the right staff in an often worldwide market place for talent.

As the rest of this booklet will show, financial services are central to the daily lives of people and businesses in the UK and globally. It is no exaggeration to say that, without these services, our lives would be immeasurably poorer. The industry is a jewel in Britain's crown.

