

# An indispensable industry

**Financial services  
in the UK**





# Introduction

Financial services touch our lives in so many ways. We rely on them to safeguard our money, to help us save for the future and to protect us against the many risks we face. They provide one in 14 jobs in the UK, and help finance the organisations millions of others work for. They have an essential role in tackling the great challenges of the day, such as climate change and international development.

The financial services industry and associated professional services also provide vital support for the UK economy. Between them, they employ nearly two million people, the majority outside London and the South East. They contribute billions of pounds of tax to the exchequer every year, and earn valuable export earnings for the country. And British skills and experience have turned London into a leading international finance centre which hosts many of the world's premier financial markets.

The international financial crisis that began in the autumn of 2007 led many to question the role of the financial services industry. Hard lessons have been learnt, and important reforms are now underway both in the UK and abroad. However, it is vital not to lose

sight of the importance of financial and associated professional services to the UK, and this booklet brings together facts and figures to demonstrate their contribution. The UK's prosperity depends on a continuing partnership between the financial and professional services industry and the wider economy.

The City of London Corporation is responsible for looking after the Square Mile, where many global financial businesses operate. In partnership with TheCityUK, which promotes UK-based financial and professional services, it also aspires to lead the debate about the future of financial services on behalf of the entire UK industry. I hope that this publication will in a modest way contribute to public understanding of the vital role played by the industry domestically and globally.



Sir Richard Lambert  
Former Director General of the CBI

# Acknowledgements

We are grateful to the following organisations which have helped us in compiling this booklet and whose websites contain further detailed information:

**TheCityUK** – created in 2010 to champion the international competitiveness of the UK-based financial services industry, it produces authoritative reports on industry sectors and products ([www.thecityuk.com](http://www.thecityuk.com))

**Association of British Insurers (ABI)** – the voice of the UK's insurance, investment and long-term savings industry ([www.abi.org.uk](http://www.abi.org.uk))

**British Bankers' Association (BBA)** – the trade association for over 200 banks and 45 professional associate firms ([www.bba.org.uk](http://www.bba.org.uk))

**British Private Equity & Venture Capital Association (BVCA)** – representing the private equity and venture capital industry in the UK ([www.bvca.co.uk](http://www.bvca.co.uk))

**London Stock Exchange** – Europe's leading exchange group ([www.londonstockexchange.com](http://www.londonstockexchange.com))

**Payments Council** – bringing together payment service providers, organisations with a commercial interest in payments and end users ([www.paymentscouncil.org.uk](http://www.paymentscouncil.org.uk))

## About us

The City of London Corporation provides local government and policing services for the financial and commercial heart of Britain, the 'Square Mile'. As part of our role, we carry out research to monitor the performance trends and needs of the London economy, particularly the City-based financial and professional services clusters. Our regular reports include annual appraisals of the total tax contribution of UK financial services and of the economic role of London as the gateway for trade and inward investment for the whole of the UK. Other recent reports have included a survey of investor perspectives on social enterprise financing and research into the City's need for aviation services.

For more details, see [www.cityoflondon.gov.uk/economicresearch](http://www.cityoflondon.gov.uk/economicresearch)

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# Executive summary

## The UK – world-class in financial services

The financial services sector is responsible for 10% of national output, while associated professional services contribute a further 3.9%. The UK is the world's largest exporter of financial services, generating a trade surplus of almost £36bn in 2009-10. The industry contributed £53bn in tax to the exchequer in 2009-10 – 11% of tax receipts.

Banking is the largest employer in financial services, followed by insurance, securities markets and fund management. The UK is a leading international provider of professional and support services such as legal services, accountancy, management consultancy, dispute resolution and maritime services.

London is regularly rated the top global financial services centre, and is home to many of the world's leading markets and exchanges, dispute resolution bodies and professional institutions. Much of this activity is concentrated in the City of London and Canary Wharf, the two main financial districts.

The City's financial and professional services sectors are estimated to have contributed £32bn of the UK's national

output in 2010, while London as a whole contributes more to the exchequer every year than it draws in public spending.

Financial and associated professional services make a vital contribution to the UK economy, because of the distinct competitive advantage the industry has built up over the longer term. It is also central to the daily lives of people and businesses in the UK and internationally – a jewel in Britain's crown.

## Creating jobs, powering growth

Financial services employ more than 1m people in the UK, while another 900,000 work in associated professional services. Of these 1.9m employees, more than half work outside London and the South East. While London is the country's largest financial centre, there are thriving financial and professional services districts in many of the UK's larger cities.

UK banks cater for around 3.9m small businesses, lending them just under £50bn at the start of 2011. Larger businesses raised more than £31bn on the UK stock markets in 2010 to finance their investments. Venture capital firms invested £313m in innovative and growing businesses, while £1.7bn

of expansion capital was provided by venture capital and private equity firms.

### **Essential for our everyday lives**

Almost everyone in the UK has a bank account which they can use to pay bills and carry out other transactions. One in four customers now log into their bank account online daily, and 37m consumers made online card purchases worth £54bn in 2010. The success of the savings industry in all its forms means that the average pensioner household no longer relies on state benefits for the bulk of its income.

The financial services industry has helped millions buy their homes with mortgages. It has also financed the growth of privately rented accommodation, as well as social housing provided by housing associations.

Insurance companies paid out £23.4bn in 2010 on claims for general business such as vehicle, property and accident cover, while £151bn was paid out on long-term life assurance and pensions policies.

### **Contributing to global prosperity**

The City of London helps grease the wheels of international trade, hosting the world's largest foreign exchange

market with average daily turnover of \$2,191bn. It is also a major provider of the short-term finance used in roughly 90% of world trade.

The financial and associated professional services industry is at the heart of the global economy. UK banks originate 18% of loans raised overseas – more than those in any other country. UK fund managers look after more than £1,400bn of assets on behalf of overseas clients.

The industry makes a significant contribution to sustainable development. It is the largest lender to emerging economies and a leading investor in their businesses as well as infrastructure projects in water, telecoms and transport. It raises funds to lend to the world's poorest entrepreneurs, and to pay for campaigns which immunise children and adults against potentially fatal diseases.

The UK has taken the lead in tackling greenhouse gas emissions, and the City of London has become the world's carbon trading capital. UK-based institutions have invested large sums in cleaning up emissions in emerging markets and in cleantech renewable and related projects.



## The UK – world-class in financial services

### Vital support for the economy

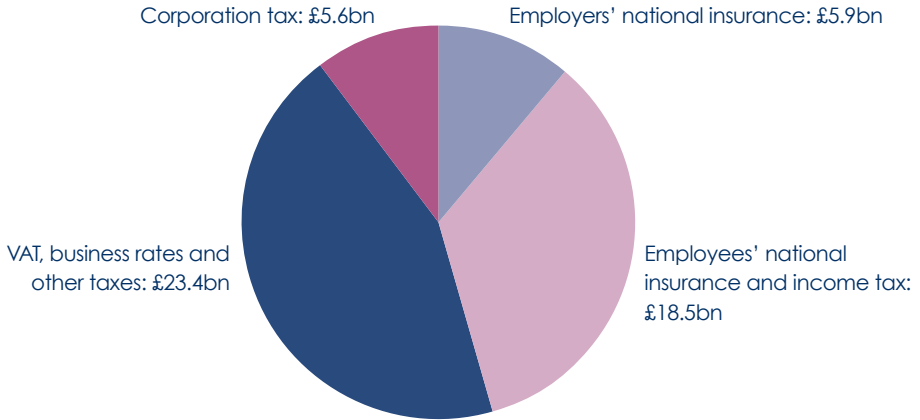
The financial services sector – which includes banking, insurance, fund management and securities dealing – is one of the UK's largest industries. It contributed £124bn to the UK economy in 2009, 10% of that year's national output. Professional services closely connected to the financial sector such 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.

### Case Study

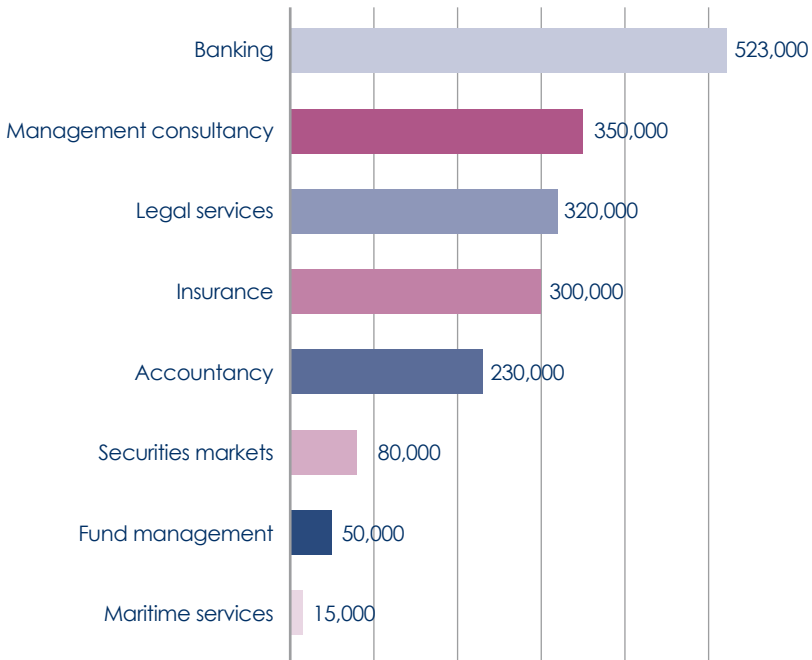
#### Islamic finance

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.

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



Source: *TheCityUK*

## 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

### 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.

- **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.

## 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.**





## Creating jobs, powering growth

### Providing jobs all over the UK

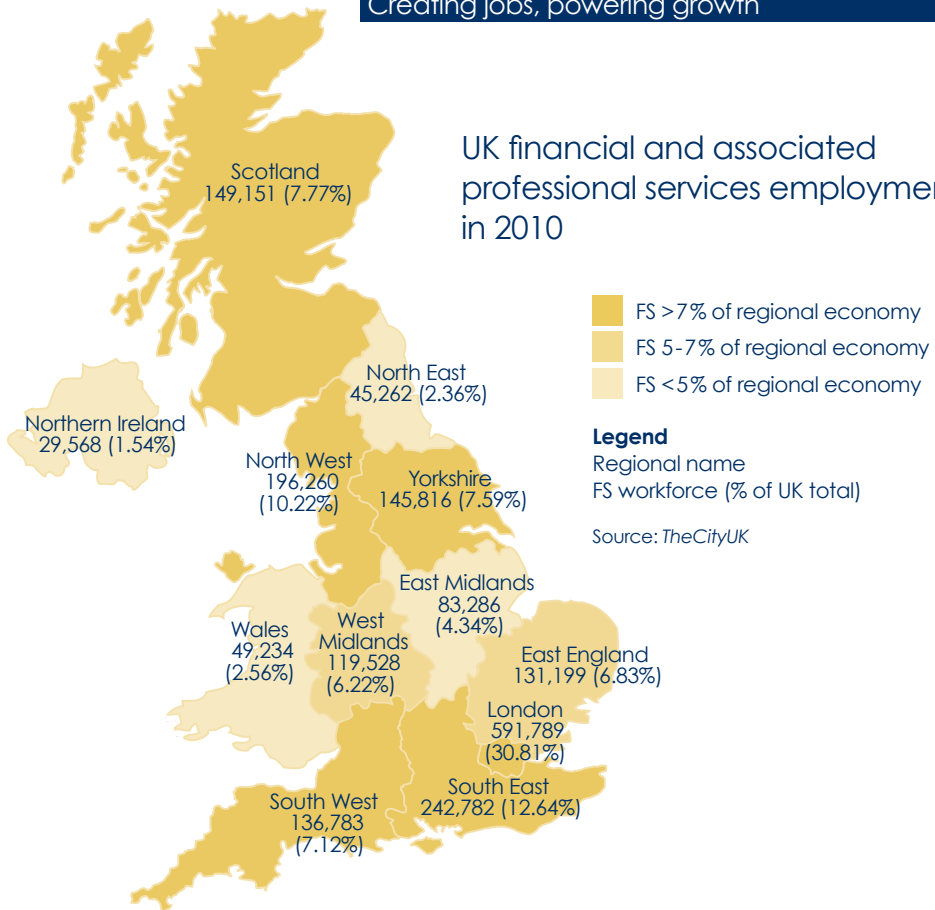
Financial services employ more than 1m people in the UK, with another 900,000 working in associated professional services. That is around 7% of all UK employment – one in 14 of all jobs.

It is often assumed that most of these jobs are concentrated in London and the South East, yet more than half are in other regions. As the map shows, financial and associated professional services firms are important employers in every part of the UK. In Scotland, the North West and Yorkshire, they provide one in 12 jobs in the private sector.

London's status as a global financial centre has given the UK international leadership in these services, but its success has created thriving financial centres around the UK. They include:

- **Edinburgh** and **Glasgow** in Scotland, where the key sectors are asset management, banking, asset servicing, life assurance and pensions
- **Newcastle** and **Sunderland** are hubs in the North East for professional services, shared services centres and outsourced services
- **Manchester** in the North West is England's northern hub in banking, insurance, law and accountancy, complemented by **Liverpool's** strengths in business and professional services, especially maritime insurance and wealth management
- **Leeds** has a large concentration of financial services businesses, while

## UK financial and associated professional services employment in 2010



other Yorkshire centres include **Sheffield** for servicing functions and **Hull** for maritime services

- **Birmingham** in the Midlands is strong in corporate banking, mergers and acquisitions, law and insurance
- **Cambridge** is headquarters for many venture capital investors, while elsewhere in the East of England **Norwich** is home to leading insurers
- **Bristol** is the centre of a cluster of insurance and pensions businesses in the South West, while **Swindon** and **Bournemouth** are also strong in financial services
- **Cardiff** and other Welsh cities have around 50,000 working in financial and associated professional services
- **Belfast** in Northern Ireland is attracting investment from global financial services companies.

## Supporting smaller businesses

UK banks cater for around 3.9m small businesses – commercial enterprises with annual bank account debit turnover of up to £1m. Each month, another 50,000 or so such small businesses open their first business account.

The current and deposit accounts of these small businesses held almost £57bn at the start of 2011. Bank borrowing by this group was hovering at just under £50bn.

Loans to small businesses take two main forms:

- **Term loans** make up the bulk of the total – just over half a million term loans worth £42.2bn were outstanding at the start of 2011
- **Overdraft facilities** are available to many more small businesses, but often not drawn on fully – borrowing under such facilities was worth just £7.6bn at the beginning of 2011.

The amount banks lent to small businesses fell in 2010 and the amount deposited by small businesses rose. However, the major UK banks have agreed to increase lending provision for small and medium-sized enterprises by 15% in 2011. A review

by the Bank of England in August 2011 found that the banks were on track to meet their so-called Project Merlin targets.

There are other financial services used to fund the activities of small and medium-sized enterprises (businesses with annual turnover of up to £25m). Around 10% of SMEs that offer credit to their customers get their hands on the money quickly by selling the invoices to a financial organisation at a discount.

Businesses of all sizes can acquire machinery, equipment and vehicles through hire purchase and leasing, which provide finance to around 20% of all SMEs. A finance company buys the item and allows the business to use it in return for regular payments.

Start-up and innovative small businesses can also tap into other types of finance – see Financing innovation, page 24.

Case Study

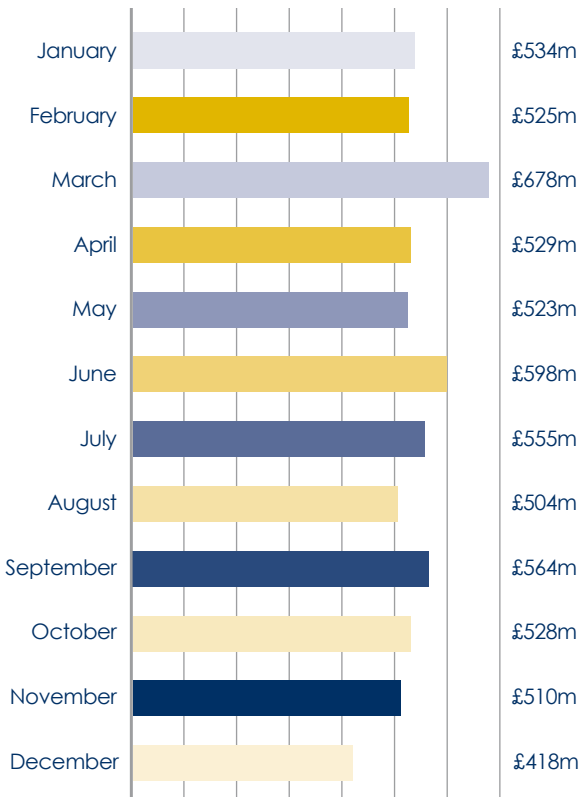
Keeping business moving

Small and medium-sized businesses are making increasing use of leasing and hire purchase to finance vehicles and other equipment. More

than £1bn was provided by finance companies for around 20,000 commercial vehicles, trucks and lorries in the first quarter of 2011 – up 32% on the first quarter

of 2010. Finance for business equipment, plant and machinery was £1,341m, up 15%.

New term-lending to small businesses in 2010, per month



Source: British Bankers' Association

## Funding investment

Businesses that want to invest in building a factory, developing a new product or buying another business will often turn to outside investors for finance. This can be achieved by forming a company and selling shares: in return for the investment, the company pays a share of any profits to the shareholders – individual investors or big institutions such as pension funds and life assurance companies. Investors may also make money by selling the shares for a profit if the company is successful.

Stock markets such as the London Stock Exchange (LSE) and the PLUS Stock Exchange (PLUS-SX) provide markets where companies can raise capital from investors, and investors can buy and sell shares. In total there are 1,088 UK companies on the LSE main market, 929 on LSE's AIM market for high growth companies and 131 on

PLUS-SX, which caters for smaller growth companies.

In 2010, companies raised more than £31bn on the two LSE markets, which included almost £7bn on AIM. Another £25.3m was raised on PLUS-SX. The LSE has provided a reliable and sustainable source of finance for companies needing to raise capital over the years. It displayed its resilience during the recent financial crisis, raising more than £150bn in 2008 and 2009 as companies repaired and rebuilt their balance sheets.

Companies can also raise capital by selling bonds which pay a specified return until the capital is repaid. The LSE launched a new retail bond market in 2010 which gives individual investors direct access to the bond market.

### Case Study

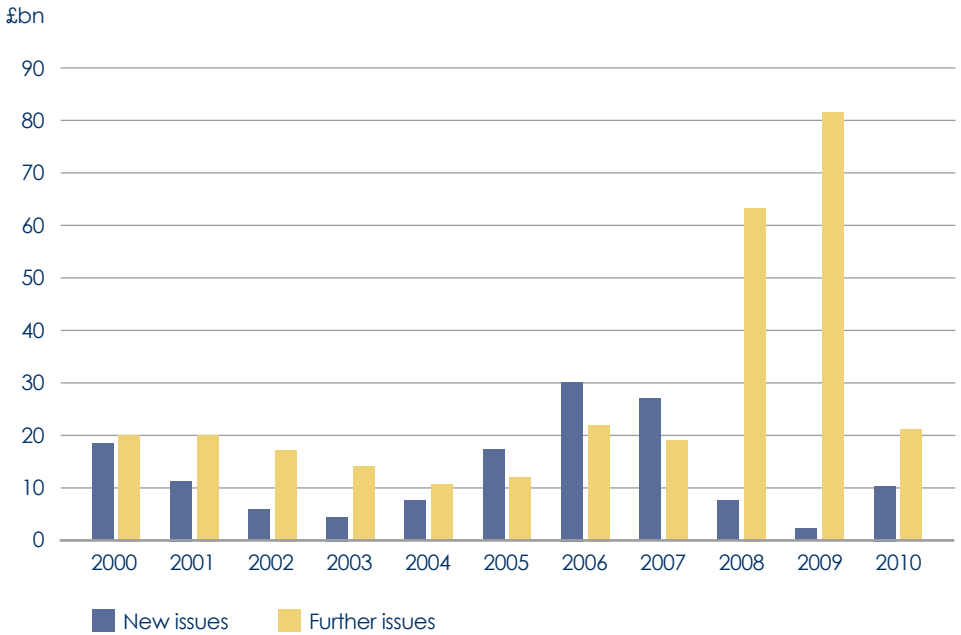
#### Pizza to go

Domino's Pizza UK & Ireland opened its first store in the UK in 1985, and in Ireland in 1991. It was admitted to the LSE's AIM market in November 1999 when it had fewer than 200 outlets,

raising £4m and achieving a market capitalisation of £25m. Having grown rapidly in the next few years, it moved to the LSE main market in May 2008 and is now a member of the

FTSE 250 index. Today over 20,000 people work in more than 660 Domino's Pizza stores in the two countries, most owned by franchisees.

## Money raised on the London Stock Exchange markets 2000-2010, £bn



Source: London Stock Exchange

## Financing innovation

Enterprise and innovation are critical to the UK's economic growth and international competitiveness.

Banks will be prepared to lend to an innovative business with a good prospect of success, especially if the loan is underwritten by government loan guarantee schemes. But it can often be hard for growing companies to raise finance from banks or the stock markets if their ideas have yet to be proved profitable. Specialist investors play a vital role in ensuring the success of such ventures.

Many new enterprises start with finance from business angels. These individuals invest relatively modest amounts in start-ups – typically between £50,000 and £500,000 – and also contribute their expertise. Estimates of the amount invested by angels in 2009-10 range from £318m up to £1bn.

Venture capital firms, which look for bright ideas and intelligent entrepreneurs, will also invest “seed capital” as well as finance for start-ups which have proved their businesses work so they can move through the next stages to lift-off. Venture capital firms raise funds from investment institutions such as pension funds, sovereign wealth funds, endowments and wealthy individuals and families. Altogether, venture capital firms invested £313m in 397 companies during 2010.

Further injections of expansion capital by venture capital or private equity firms may be needed before a new business can turn to the stock markets for funds. In 2010, £1,653m of expansion capital was invested in 334 companies.

Case Study

## Glasses in cyberspace

Founded by entrepreneur Jamie Murray Wells in 2004, Glasses Direct is today the UK's largest internet-based retailer of prescription glasses – it calculates its lower prices have saved consumers over £40m since

it was launched. It initially raised £3m in 2007 from Index Ventures and Highland Capital Partners, and a further £10m in 2009 from these two venture capital firms and Acton Capital Partners. In 2011,

its parent company bought Sunglasses Shop, Europe's leading online retailer of sunglasses, which gives it overall sales of almost a quarter of a million pairs a year.

## UK venture capital and expansion capital investment 2008-10

Financing stage	Number of companies			Amount invested		
	2010	2009	2008	2010	2009	2008
Seed	39	37	67	£10m	£14m	£12m
Start-up	65	57	103	£46m	£125m	£160m
Early stage	219	191	285	£168m	£164m	£187m
Late stage VC	74	80	n/a	£89m	£151m	n/a
<b>Total venture capital</b>	<b>397</b>	<b>365</b>	<b>455</b>	<b>£313m</b>	<b>£454m</b>	<b>£359m</b>
Expansion/growth capital	328	296	482	£1,651m	£1,055m	£2,050m
Bridge financing	6	21	27	£2m	£15m	£17m
<b>Total expansion capital</b>	<b>334</b>	<b>317</b>	<b>509</b>	<b>£1,653m</b>	<b>£1,070m</b>	<b>£2,067m</b>

Source: British Private Equity & Venture Capital Association (BVCA)



## Essential for our everyday lives

### Banking services for everyone

Almost everyone in the UK has access to a bank account which they can use to pay bills and carry out other transactions. The latest figures show that just 3% of adults live in homes without a transactional bank account – down from 8% nine years ago, and one of the lowest levels in Europe. UK banks operate 150m current, deposit and savings accounts for their UK customers, and new basic bank accounts introduced in 2003

allow customers to receive money, pay bills and withdraw cash through post offices.

It is easier than ever before to withdraw money from bank accounts or use it to pay bills. There are around 10,500 bank branches and more than 63,000 ATM cash machines in the UK – more per million people than in France, Germany and Italy. Meanwhile banks have been phasing in faster clearing of telephone, internet and

#### Case Study

### Account-holders reunited

A scheme to track down lost bank and savings accounts has reunited customers with over £475m since it was launched

in January 2008. More than 430,000 people have submitted search requests through [www.mylostaccount.co.uk](http://www.mylostaccount.co.uk),

a website that searches banks, building societies and NS&I records for dormant accounts.

standing order payments so they can be completed within a few hours, down from three or more days previously.

Cash is still popular for many smaller transactions, but the amount paid by debit card overtook notes and coins for the first time in 2010. There are now around 85m debit cards in issue and 62m credit and charge cards.

Bank customers increasingly use their accounts online, without the need to

visit a branch. One in four UK adults say they log into their bank account daily, and two-thirds say it is their preferred way of managing their money.

The widespread use of cards has helped the growth of internet retailing, with more than 37m UK consumers making 718m online card purchases in 2010, to a total value of £54bn.

## The UK payments market in 2010

Method of payment	Number of transactions	Value of transactions
Cash	20.4bn	£262bn
Debit card	6.5bn	£288bn
Direct debit	3.2bn	£948bn
Credit card	2.0bn	£128bn
Cheque	1.1bn	£1,077bn
Of which Personal cheques	620m	£243bn
Of which Business cheques	493m	£834bn

Source: *Payments Council*

## Savings for the future

Most people in the UK save some money, and the financial services industry offers them a wide range of savings options.

Straightforward savings accounts provide a place for spare cash, whether to pay for a holiday, buy a new car or to put money aside for a rainy day. Around half of UK households have a bank or building society savings account – some are simple deposit accounts, while others are term accounts paying a fixed rate of interest for a set period.

Financial services can also help people put away money for the longer term. Investments such as shares, bonds, unit trusts and life assurance policies are just some of the options for longer-term savings. Nearly one in five households have invested in shares or unit trusts.

The most popular way to save for retirement is through a pension scheme, with some 8.7m people in active membership of occupational pension schemes at work. When other employer-sponsored schemes are taken into account, around half of all UK employees are covered. And over the last three decades, increasing numbers have taken out personal pensions, bringing the total number saving through pension schemes to 14m.

One important consequence of the availability of such savings products is that the income of pensioners has risen faster than earnings over the last decade. The average pensioner household today has nearly as much income from pensions and savings as from state benefits which now account for less than half the total. This share is likely to rise with the government's policy of promoting more saving for pensions, starting at an earlier age.

## Case Study

## Who wants to be a millionaire?

Two out of five UK households enjoy tax-free returns on investments held in Individual Savings Accounts (ISAs), owning cash, stocks and shares worth £350bn in April 2010.

But some have become "ISA millionaires" by investing the maximum amount each year – £10,680 for 2011-12 – in ISAs and in the Personal Equity Plans (PEPs) which preceded

them. Stockbrokers say they have clients who have built up portfolios worth more than £1m by choosing their investments well and reinvesting the income from them.

## Pensioners' weekly income in 2009-10

Source of income	All pensioner households	Pensioner couples	Single pensioners
Benefit income	£186	£203	£169
Occupational pension	£112	£161	£65
Personal pension	£17	£26	£8
Investment income	£34	£52	£18
Earnings	£90	£161	£23
Other income	£3	£4	£3
<b>Total gross income</b>	<b>£442</b>	<b>£607</b>	<b>£286</b>

Source: *The Pensioners' Income Series 2009-10*, Department for Work & Pensions, 2011

## A home to live in

Financial services have helped millions of people to buy their homes for the first time, and also support private landlords and housing associations in providing rented accommodation.

Over two-thirds of homes in the UK are owned by the people that live in them. In most cases, owner-occupiers have been able to buy their homes because of the availability of mortgage loans, secured against the value of their property.

More than half of home-owners in England – some 7.7m households – currently have a mortgage, with the majority paying less than £120 a week. The remainder, who are mainly over 55, will often have become home-owners with the help of mortgages which they have now repaid, leaving them with a valuable asset.

Home ownership does not suit everyone, and some 8.6m homes in the UK are rented. More than 42% are owned by private landlords, compared with about a quarter 20 years ago. Many of these private landlords have bought the homes they let out or financed new developments with the help of funds provided by banks and other financial services institutions.

The rest of the rented accommodation is social housing provided by local authorities and housing associations which charge their mainly lower income tenants rents at about half the levels of private landlords. Even here, the financial services sector provides more than £60bn of credit facilities to the housing associations which own just over half of social housing so they can make their government grants go further.

### Case Study

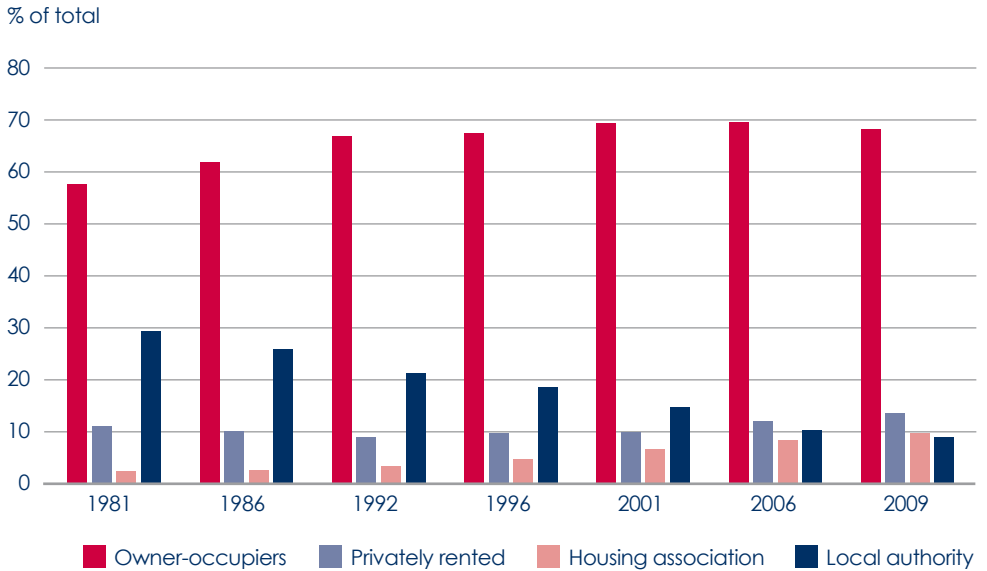
#### Fixing the cost of a mortgage

People buying their homes with a mortgage used to pay a variable rate of interest on the loan, which rose and fell with other interest rates – making it hard to budget at times

when interest rates were rising. Today most borrowers are paying a fixed rate of interest, protecting themselves from sudden increases in mortgage payments. Lenders can

raise funds in the financial markets in a variety of ways that let them guarantee fixed interest rates over short or long periods without making a loss.

## The growth of home ownership and private renting



Source: UK Housing Review 2010-11, Chartered Institute of Housing, December 2010

## Protection against risk

Risk is inescapable for people, businesses and public bodies, whether it be fire, floods, crime, accidents or other costly threats. Insurance companies pool these risks by collecting relatively small premiums from those threatened by them, creating a fund to pay out to the minority of policyholders who are hit by them.

The UK insurance industry took in almost £32bn in premiums for general business such as vehicle, property and accident cover in 2010, and paid out £23.4bn in claims. Premiums for long-term life assurance and pensions business were £110bn in that year, while payments to policyholders totalled £151bn.

The scale of protection can be seen in the amounts paid out daily: £147m to pensioners and long-term savers, £22m in private motor claims and almost £10m to householders for property damage or the loss of possessions. There were 3.7m private motor claims and 2.1m household claims in 2010.

Insurance protection is also essential for businesses and other organisations, with average daily pay-outs of £4.6m for property damage and £5.2m in claims for accidents at work, professional liability and injuries to the public. UK-based insurers operating through the London market and Lloyd's of London can cover very big or unusual risks, such as those faced by airlines, oil and gas exploration companies and the organisers of events such as the 2012 London Olympic and Paralympic Games.

Insurers invest large amounts in company shares and other assets on behalf of savers and policyholders – more than £1,700bn at the end of 2010.

Case Study

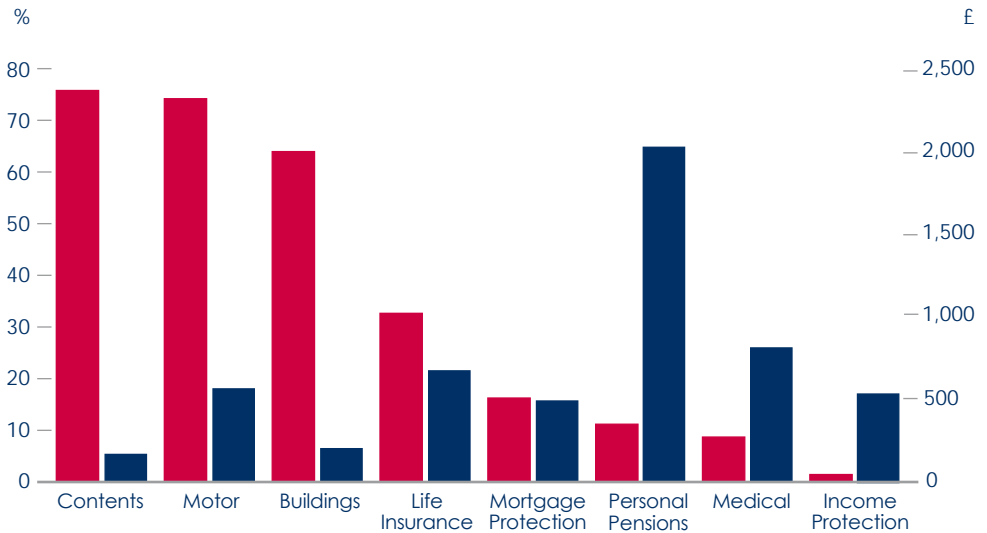
### Insurance for all eventualities

Event insurance, which protects organisers against a variety of threats, is a speciality at Lloyd's. Cover against damage to property or personal injury at firework displays, for example, starts

at around £100, while protection against washout losses caused by bad weather or industrial action can cost a little more. Organisers of golf days offering big prizes in

hole-in-one competitions can also insure against paying out – whether the prize is \$1 m, a smart new car or the holiday of a lifetime.

### Take-up of insurance by households and the cost of premiums\*



■ % of households with insurance (LHS)

■ Average annual household spending on insurance - £ (RHS)

\* Excluding insurance provided by employers, such as medical cover  
 Source: ONS Living Costs and Food Survey 2009



## Contributing to global prosperity

### Financial services around the world

The UK is at the heart of the global economy, helping raise funds for overseas businesses and providing financial services to people, businesses and governments around the world.

In every sector, the UK is a leading global provider:

- Banks in the UK originate more loans overseas than banks in any other country – 18% of the world total
- The UK insurance industry is the third largest in the world, and London is the largest international insurance market with gross premium income of £32bn in 2009
- The London Stock Exchange has more foreign listed companies than any other exchange, and is a leading centre for foreign equity trading

#### Case Study

### A second home for the world's wealthiest investors

London provides a European base for some of the world's richest sovereign wealth funds (SWFs), which invest wealth earned from oil and other commodities on behalf of their nations. They are attracted by the

City's unique cluster of financial and professional services, its broad skills base, the UK's open markets and the primacy of English law in many international transactions. Their number includes the Abu Dhabi

Investment Authority, the world's wealthiest SWF with \$627bn of assets, Temasek/General Investment Corporation of Singapore and the Kuwait Investment Authority.

- London is the foremost global centre for international bond trading, with an estimated 70% of secondary market turnover
- UK fund managers look after more than £1,400bn of assets on behalf of overseas clients
- The UK foreign exchange market is the largest in the world, with average daily turnover of \$2,191bn in April 2011 – more than New York and Tokyo combined
- The UK is Europe’s largest centre for commodities trading, with around 15% of the global market
- London leads in the supply of business services to the international maritime community – ship-broking, finance, insurance and classification.

In addition, the UK is the biggest market in the world for interest-rate derivatives traded over the counter (OTC), and the second largest centre for exchange-traded futures and options. It is the largest European market for private equity, raising £7.7bn in 2009 – a third of the funds raised in Europe. It is also the largest hedge fund market in Europe, with around four-fifths of European-based hedge fund assets managed in the UK.

## The UK's market share in global financial markets

Market	Share	Ranking
Non-ferrous metals trading	90%	1
International bond trading	70%	1
Ship-broking	50%	1
Derivatives (OTC interest rate)	46%	1
Foreign exchange trading	37%	1
Marine insurance premiums	21%	1
Hedge fund assets	20%	2
Cross-border bank lending	18%	1
Foreign equities turnover	17%	2
Private equity investments	13%	2

Source: TheCityUK

## Supporting sustainable development

Around 40% of the world's population live on less than \$2 a day, and lifting them out of poverty requires sustainable economic growth.

A substantial body of research has shown that growth rates are faster in countries with well-developed banking systems and markets which can help fund the growth of businesses.

The UK banking sector is the largest lender to emerging economies, with \$862bn outstanding at the end of 2010 – 19% of total lending to emerging markets. UK banks account for 30% of lending to China, India and Malaysia; 17% of lending to Brazil; and 71% of lending to South Africa.

The UK is also a leading investor in emerging market businesses. And it finances infrastructure services in water, telecoms, transport and power through Public-Private Partnerships, a funding model pioneered by the UK which is particularly suitable for countries where governments have little cash to invest.

London-based banks and investors have funded microfinance institutions which provide relatively small loans to help very low income people start up or expand a business. Other financial services for the world's poorest people have been created by UK-based businesses, such as MicroEnsure's low-cost insurance policies to protect African farmers against crop failure caused by drought or excess rain.

The International Finance Facility for Immunisation (IFFIm), a UK initiative, has raised \$3.4bn since 2006 in the global capital markets to vaccinate children against potentially fatal diseases, to be repaid by aid payments pledged by 10 countries over up to 20 years. The first \$1bn was raised by a bond issued in London, and the scheme is projected to protect more than 500m children by 2015. It is estimated that this will prevent the deaths of 10m children and adults from diseases such as diphtheria, whooping cough, yellow fever, polio and hepatitis B.

Case Study

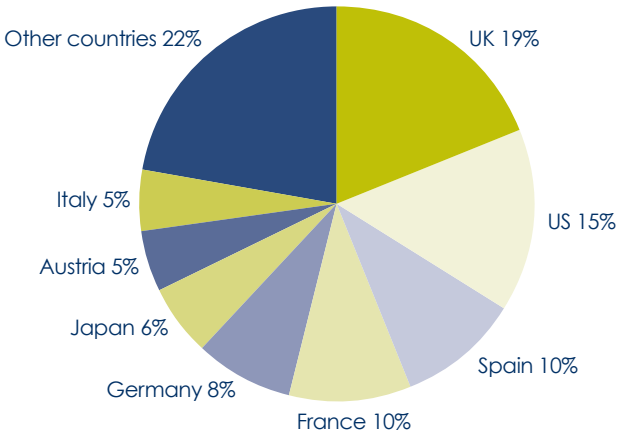
### Protecting new-born babies

A newborn child dies every nine minutes worldwide due to the lack of a clean delivery and the resulting tetanus infection. Yet two doses of tetanus toxoid vaccine will protect mother

and child against maternal and neonatal tetanus which are estimated to have caused 59,000 deaths worldwide in 2008. Tens of millions of women have been vaccinated since 2007

in a campaign funded by \$61.4m raised through the IFFIm, eliminating the disease in 20 countries as well as large parts of India and Indonesia.

### Countries lending to emerging markets, share of total at the end of 2010



Source: TheCityUK, Bank for International Settlements

## Tackling climate change

Climate change is widely seen as a threat to economies and societies round the world. The UK has taken the lead in two aspects central to the international drive to reduce greenhouse gas emissions: carbon trading and clean technologies.

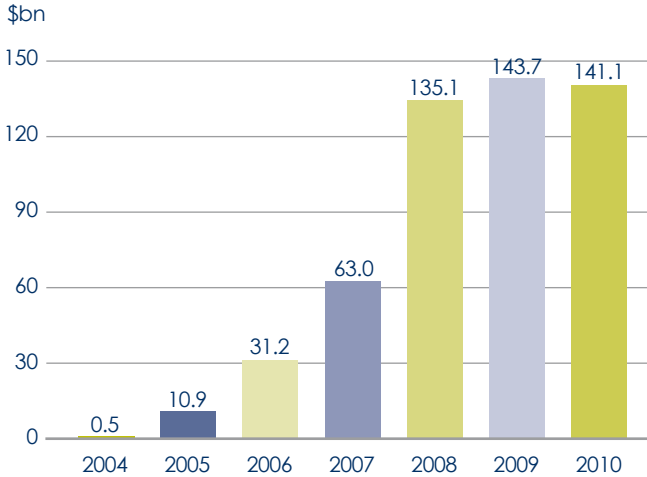
Carbon trading systems cap the total amount of greenhouse gas emissions and issue permits to emitters which can be bought and sold – providing incentives for the biggest emitters to reduce their emissions. London is the world's carbon trading capital, home to the European Climate Exchange which handles the bulk of trading in the permits issued under the European Union Emissions Trading Scheme.

Companies which fund the reduction of greenhouse gases in countries outside the EU – which are often big emitters – earn carbon credits, which can be used to offset their own emissions or sold to others.

A total of \$82bn has been invested in China, \$19bn in India and \$18bn elsewhere in a range of projects, including hydro-electric power (30%), wind (21%), biomass (12%) and methane avoidance (12%). The UK dominates trading in certified emissions reduction permits from such projects, and is also the lead investor in them, with investments in 1,445 projects up to June 2011 – 26% of the total.

Finally, the UK is a leader in investing in cleantech – the development of renewable and related technologies. There are 37 cleantech companies listed on the London Stock Exchange main market, with a market capitalisation of £48bn, and another 78 on AIM worth £3.9bn. These companies have raised £10bn in equity to promote energy efficiency, renewable and alternative energy sources, water infrastructure and pollution controls.

## Value of emissions traded on global carbon markets



Source: *TheCityUK*

### Case Study

#### Cleantech lighting in Africa

For 600m people in sub-Saharan Africa, flickering candlelight or polluting kerosene lamps are the main source of lighting. Nuru Light supplies entrepreneurs in African villages with LED lights which are sold to villagers for less than

\$7 each and can be recharged cheaply using a pedal generator operated by the entrepreneur. The buyers recoup the cost of a light in just 22 days through savings on kerosene which typically costs 10-40% of a villager's income. The

scheme is being scaled up with finance from Bank of America Merrill Lynch in London in return for carbon credits – the reduction in kerosene burning is expected to cut carbon emissions by 3.5m tonnes over a decade.

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