

## KEY FACTS

### ABOUT THE UK AS AN INTERNATIONAL FINANCIAL CENTRE 2017



## About TheCityUK

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TheCityUK is the industry-led body representing UK-based financial and related professional services. In the UK, across Europe and globally, we promote policies that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes nearly 11% of the UK's total economic output and employs over 2.2 million people, with two thirds of these jobs outside London. It is the largest tax payer, the biggest exporting industry and generates a trade surplus greater than all other net exporting industries combined.

# KEY FACTS ABOUT THE UK AS AN INTERNATIONAL FINANCIAL CENTRE

**LONDON IS THE  
NUMBER 1 INTERNATIONAL FINANCIAL SERVICES CENTRE**



## TRADE SURPLUS

UK FINANCIAL SERVICES

**\$77BN**



UK FINANCIAL AND RELATED PROFESSIONAL SERVICES

AROUND  
**\$93.6BN**

THE UK IS THE **LEADING GLOBAL NET EXPORTER OF FINANCIAL SERVICES**

UK  **\$77BN**

US  **\$41BN**

SWITZERLAND  **\$22BN**

UK BANKING SECTOR ASSETS ARE THE **LARGEST IN EUROPE**

UK **\$8TRN**

FRANCE **\$7.5TRN**

GERMANY **\$7TRN**

ITALY **\$3.5TRN**



THE UK TAKES THE LEAD IN INTERNATIONAL FINANCIAL MARKETS TRADING\*

FOREIGN EXCHANGE TRADING **37%**

CROSS BORDER BANK LENDING **16%**

INTERNATIONAL INSURANCE PREMIUM INCOME **6%**

\*% OF GLOBAL MARKET

THE UK IS THE LEADING **FOREIGN EXCHANGE MARKET**



**NEARLY TWICE AS MANY US DOLLARS ARE TRADED IN THE UK THAN IN THE US**

**MORE THAN TWICE AS MANY EUROS ARE TRADED IN THE UK THAN IN THE EUROZONE**





THE UK **LEGAL SERVICES** SECTOR IS THE LARGEST IN EUROPE AND 2ND GLOBALLY

THE UK ACCOUNTS FOR AROUND



OF GLOBAL **LEGAL SERVICES** FEE REVENUE = BETWEEN \$580BN AND \$640BN

UK **ACCOUNTING SERVICES** NET EXPORTS =



THE UK **INSURANCE** SECTOR IS THE BIGGEST IN EUROPE AND 4TH IN THE WORLD

UK **INSURANCE** PREMIUMS:

6.4% OF GLOBAL

20.7% OF EUROPEAN



VALUE OF INTERNATIONAL BONDS IN THE UK =

**\$2.9TRN**

LARGEST IN THE WORLD



**479** FOREIGN COMPANIES LISTED ON THE **LSE**

= **16%** OF THE GLOBAL TOTAL



UK ASSETS UNDER MANAGEMENT =  
A RECORD

**\$11TRN**

OTC INTEREST-RATE DERIVATIVES  
TRADING WORLDWIDE

UK = **39%**

US = **41%**

AVERAGE DAILY VOLUME CLEARED AT THE LONDON BULLION MARKET ASSOCIATION



19.5 MILLION OUNCES OF GOLD = \$24.3BN

171.8 MILLION OUNCES OF SILVER = \$3BN



THE UK PLAYS A KEY ROLE IN  
GREEN BONDS

45 GREEN BONDS LISTED ON THE LSE

= **\$12.1BN**

IN 7 DIFFERENT CURRENCIES



THE UK'S FIRST SOVEREIGN  
SUKUK ORDERS =

**\$3.8BN\***

\*2014



**20%**

OF UK TERTIARY-LEVEL  
STUDENTS ARE  
NON-UK STUDENTS



LONDON IS RANKED AS THE  
5TH LEADING MARITIME CAPITAL  
IN THE WORLD

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# FOREWORD

In a time of change, it is good to see that some things remain the same. The UK continues to be the leading international financial and related professional services centre, and our industry continues to be a major national asset. Britain's trade surplus in financial services of \$77bn in 2016 was more than the combined surpluses of the next two leading countries (the US and Switzerland). The UK has the leading share of trading in many international financial markets such as foreign exchange trading (37%), cross border bank lending (16%) and international insurance premium income (6%). It is also a global leader in providing professional services.

London's only real rival as a full spectrum truly global financial centre is New York. However, an increasing number of specialist and regional centres ranging from Shanghai to Dubai are developing their own capabilities. This is not a zero-sum game. Greater competition is a challenge to companies to innovate and improve services – areas of traditional strength for the UK.

Not only is the UK a global financial centre, it is also Europe's financial hub; this will remain the case even after the UK exits the EU in 2019. What Brexit reinforces is the urgency for the UK to strengthen its trade and investment relationships with key non-EU nations, such as the US and Japan. It could benefit from higher trade and investment volumes with emerging markets such as China and India that are – and will remain – the drivers of global economic growth.

The UK's ability to continue to attract high levels of foreign direct investment (FDI) – both in financial and related professional services and in the wider economy – can only be assured if it remains an attractive place to invest. Britain enjoys a clear competitive advantage in our industry but it is vital that this competitive advantage is not lost. Action must be taken to reinforce the global attractiveness of the UK as a place to invest and do business. This is especially important as we move towards a new relationship with the EU. This Key Facts report serves as a reminder of why the UK's leading global position in international financial markets should be valued and supported.

## Miles Celic

Chief Executive Officer, TheCityUK



# CENTRAL ROLE OF THE UK IN THE GLOBAL ECONOMY

The UK is a major global hub for international wholesale finance. Within the UK, the importance of London is core to its international position but other cities such as Edinburgh and Glasgow in Scotland; Birmingham, Bristol, Leeds, Manchester and Newcastle in England; Cardiff in Wales; and Belfast in Northern Ireland are also important financial centres.



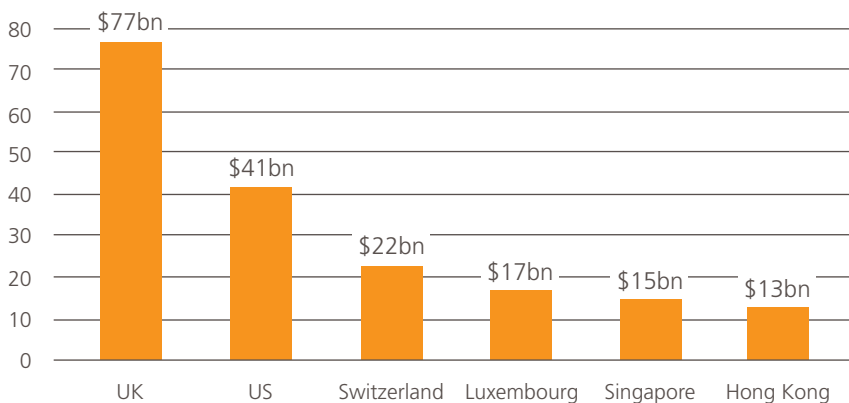
A strong London is good for the regional economies, but it is very much a symbiotic relationship. Strong regional centres increase the global appeal of London by widening the talent pool and offering growth opportunities for financial and related professional services firms.

## The UK – the leading exporter of financial services across the world

The UK's financial services trade surplus of \$77bn in 2016 was more than the combined surpluses of the next two leading countries (the US and Switzerland).<sup>1</sup> When the estimated trade surplus for related professional services – legal services, accountancy and management consultancy – is also taken into account, this figure climbs to around \$93.6bn.<sup>2</sup> The UK's largest trading partners are the US and other EU Member States.

**Figure 1:** Largest global net exporters of financial services, 2016

Source: UNCTAD



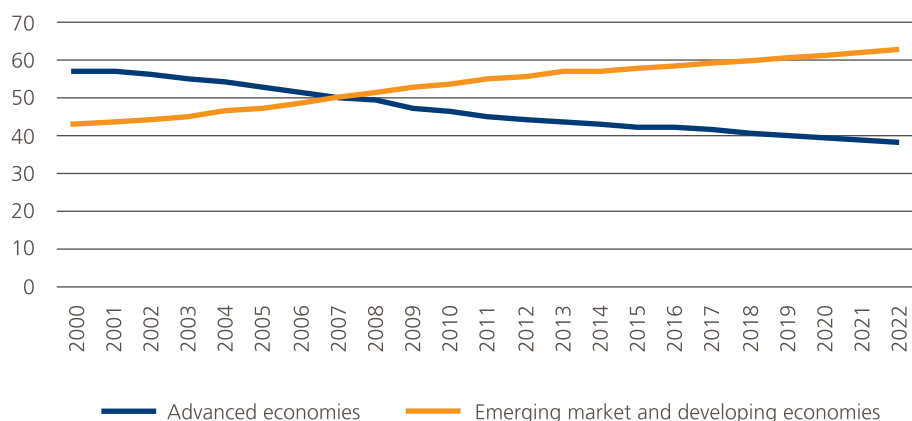
<sup>1</sup> UNCTAD, 'Data Centre', available at: [http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en)

<sup>2</sup> TheCityUK calculations based on ONS, 'United Kingdom Balance of Payments – The Pink Book time series dataset', available at: <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/pinkbook>



**Figure 2:** Percentage of world GDP (based on purchasing power parity)

Source: IMF



The UK has a strong record in managing financial and related professional business from developed economies. Developing economies also require financial services to achieve further progress in industrial development, infrastructure investment, poverty reduction and promotion of financial inclusion. The volume of trade with these countries has great potential for growth due to the rise in the importance of emerging markets to the global economy. The UK has been able to support them through its leading role in many international financial markets; this role could potentially be enhanced following the UK's departure from the EU.

**Figure 3:** Financial markets share by country (%)

Source: TheCityUK calculations based on Bank for International Settlements, Willis Towers Watson, Investment Company Institute, Insurance Europe, The General Insurance Association of Japan, The Life Insurance Association of Japan, Insurance Bureau of Canada, Canadian Life and Health Insurance Association, Insurance Information Institute and International Monetary Fund

	UK	US	Japan	France	Germany	Singapore	Hong Kong	Others
Cross-border bank lending (Q2 2017)	16	10	12	8	8	3	5	38
Foreign exchange turnover (Apr 2016)	37	20	6	3	2	8	7	18
Interest rates OTC derivatives turnover (Apr 2016)	39	41	2	5	1	2	4	7
Fund management (as a source of funds, end-2016)	7	46	8	4	4	-	-	-

### The Financial Services Trade and Investment Board (FSTIB)

The FSTIB brings together the UK government with practitioners from across the financial and related professional services industry. It seeks to support the UK's world-leading financial services industry to export abroad and attract overseas investment into the UK.

The FSTIB reports directly to the Chancellor of the Exchequer, is chaired by HM Treasury and includes senior officials from the Department for International Trade, Foreign & Commonwealth Office and Department for Business, Energy and Industrial Strategy. TheCityUK is a member of the Board and also provides significant delivery capacity and capability.

The Chancellor re-launched the FSTIB with a renewed mandate to boost financial services trade and investment in 2015. Work for the current mandate includes the financial partnership and cooperation between the UK and the US, China and India; investment management, FinTech, insurance and capital markets. Investment management, Insurance, UK-China financial services, UK-India financial services, UK-US financial services, FinTech and capital markets.

As the UK negotiates its departure from the EU, the work of the FSTIB will become even more critical.

[www.fstib.com](http://www.fstib.com)

**Figure 4:** UK share of financial markets (%)

Source: TheCityUK calculations based on Bank for International Settlements, Willis Towers Watson, Investment Company Institute, Insurance Europe, The General Insurance Association of Japan, The Life Insurance Association of Japan, Insurance Bureau of Canada, Canadian Life and Health Insurance Association, Insurance Information Institute and International Monetary Fund

	1995	1998	2001	2004	2007	2010	2012	2013	2014	2016
Cross-border bank lending	17	20	19	20	18	18	18	17	17	16
Foreign exchange turnover	30	33	31	32	35	37	-	41	-	37
Interest rates OTC derivatives turnover	27	36	35	42	44	46	-	49	-	39
Fund management (as a source of funds)	-	8	8	8	9	8	8	8	7	7

### Rankings of global financial centres

By any of the measures used by established indices, such as Z/Yen's GFCI survey, 'The Banker's' annual rankings or PwC's annual 'Cities of Opportunity' report, London ranks first or second as an international financial services centre.

The co-location of banking, insurance, fund management, securities, derivatives, foreign exchange expertise and human talent and capacity all combine with market infrastructure to support London. If legal services, accountancy, management and strategic consultancy, public relations and other related professional services are included, a fuller and truer picture emerges which shows London consistently ranked at the top.

The number of financial centres seeking international business is growing. While London and New York are long established international financial centres, Asian centres such as Singapore, Hong Kong and Tokyo have evolved into well-developed regional hubs.

At the next level, there are a series of emerging regional hubs, including the likes of Shanghai and Mumbai.

There are also specialist hubs and local centres which have a strong but more limited international footprint, such as Frankfurt, San Francisco, Tel Aviv and Zurich. A well-targeted specialist local or regional offer can bring success for emerging international financial centres as they seek to develop niches or provide a particular set of products. For example, Dublin and Luxembourg have defined their business by successfully pursuing a focused strategy.

Regional and specialist international financial centres have challenged larger ones to be more innovative and to respond to competitive dynamics. Part of the constant challenge to remain competitive comes from a re-definition of the basis of competitive advantage. It used to be that factors such as location relative to time zones, language, rule of law and culture were component parts of the competitive offering. They remain important, but are no longer the full story. Regulatory and supervisory coherence, tax policy, deep pools of talent, and political recognition and support are also part of the mix and may, over time, create a differentiated momentum. As global trade and investment grows in new directions, international financial centres will adapt to reflect new needs and opportunities. TheCityUK

set out a proposed path for the UK's adaptation in this regard in its report 'A vision for a transformed world-leading industry' published in July 2017.<sup>3</sup>

Working with other financial centres has helped develop the international networks of UK-based firms, allowing them to expand their international business. In return, the UK has provided access to its markets and expertise for overseas companies, and has acted as a template for many developing centres. This is helping to build a stronger, more stable and more prosperous global economy.

### London's role as Europe's financial centre

The links between financial markets in the UK and EU are extensive. Collectively, the EU is currently the largest global market with 509m people (around 7% of the global population), and generating GDP over \$16trn (around 22% of global GDP).<sup>4</sup>

A high proportion of EU financial market activity is concentrated in London and other cities in the UK, especially in wholesale markets such as foreign exchange and OTC derivatives trading, and specialist markets such as hedge fund and marine insurance. More than half of European investment banking activity is conducted in the UK.

The UK is also a leading provider of related professional services and is the biggest European centre for international legal services and dispute resolution, accounting, management consulting, and financial and related professional services education and training. All of the 10 largest EU headquartered law firms are based in London.

### Factors underpinning London's status as an international financial centre

- An independent regulatory environment that is fair, transparent, proportionate and consistent.
- A business climate that facilitates new products and ideas.
- A fiscal policy that is certain, clear and competitive.
- Easy access to markets internationally for both trade and investment.
- A tradition of welcoming foreign firms. Altogether, there are over 1,000 financial services firms in the UK that are majority foreign-owned.
- Concentration of financial institutions. London has more foreign banks than any other centre. There are 160 foreign banking branches employing around 40,000 people in the UK.
- High quality professional and support services.
- A highly regarded and impartial legal system based on common law. Common law tends to be more flexible in responding to the development of financial services and is the prime reason why a large proportion of the world's commercial contracts are governed by English law and focus on soft infrastructure, including market infrastructure, the exchanges, data management, telecommunications, and security, and hard infrastructure relating to connectivity, transport and accommodation.
- A skilled and diversified labour force.
- A consistent, politically neutral legal system that is widely used and understood globally.
- A central geographical location between the US and Asian time zones, allowing London to work virtually around the clock.

<sup>3</sup> TheCityUK and PwC, 'A Vision for a Transformed World-Leading Industry: UK-Based Financial and Related Professional Services', (July 2017), available at: <https://www.thecityuk.com/assets/2017/Reports-PDF/A-vision-for-a-transformed-world-leading-industry.pdf>

<sup>4</sup> TheCityUK calculations based on International Monetary Fund, 'World Economic and Financial Surveys: World Economic Outlook Database', (October 2017), available at: <http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx>

With Brexit fast approaching, it will be important for the UK to move swiftly to advance trade and investment opportunities with the rest of the world – both in developed and developing economies. The following boxed text highlights the countries that offer significant potential for the UK to further develop its financial and related professional services trade and investment.

In addition, there are a range of other countries in Africa, Asia-Pacific, Eurasia, Latin America and the Middle East that potentially offer niche opportunities for the UK-based financial and related professional services industry.

## UNITED STATES

<b>NOMINAL GDP</b> (US\$ bn, 2016)	<b>18,624</b>
<b>PER-CAPITA GDP (US\$)</b>	<b>57,608</b>
<b>POPULATION</b> (m)	<b>323</b>
<b>REAL GDP GROWTH</b> (% change yoy, 2016)	<b>1.5</b>
<b>REAL GDP GROWTH</b> (2012-16, annual average % change)	<b>2.2</b>
<b>CURRENT-ACCOUNT BALANCE</b> (US\$ bn)	<b>-451.7</b>
<b>CURRENT-ACCOUNT BALANCE</b> (% of GDP)	<b>-2.4</b>

The US is the largest economy in the world, representing around a quarter of global GDP. It is an anchor to the transatlantic relationship and a key strategic partner for the UK.

Currently the US and the UK are each other's largest foreign investors, benefiting from a historically close relationship. This investment supports approximately 1m jobs in each country, according to research from the CBI.<sup>5</sup> British investment in the US is also substantially higher than that of other major foreign investors. Every state in the US has people in employment created and sustained by British firms. The relationship works both ways too, as the US is also the single biggest contributor of FDI to UK financial services and the biggest non-European contributor of FDI in UK professional services, accounting for 53% and around 20% respectively.

Total UK trade in goods and services to the US totalled £166bn, up around 60% on a decade earlier, accounting for around 15% of all British trade. In terms of financial services, the UK generated a trade surplus with the US of £13.3bn, 19.5% of the UK's overall financial services trade surplus (2016) and the biggest surplus with any individual country. The US also accounted for approximately 25% of UK professional services exports.

While there is global competition, there are also some business models – for example NYLon – where the US and UK parts of a firm are treated as a single body without making a transatlantic competitive distinctions. In this case, the challenge comes from other parts of the world, associated with the emerging markets.

The federal nature of the US is reflected in the legal and regulatory variations found among the states and territories. However, it is to the advantage of the US that some individual states possess economies as large as any in the markets currently served by TheCityUK's advisory groups – for example, Illinois has the same GDP as Turkey, California's GDP comfortably exceeds Brazil's, while New York's economy is greater than the whole of Sub-Saharan Africa put together.

In addition to banking, insurance and asset management issues, there are other sectoral interests in the US market concerning FinTech and cyber opportunities. This is in addition to sharing a common interest in improving critical infrastructure investments and tackling the 21st century issues of data flows, transfer, privacy and security – which are all important issues in the transatlantic context.

<sup>5</sup> CBI, 'Sterling Assets 8: British Investment Creating US Jobs', (Aug 2016), available at: [http://www.cbi.org.uk/cbi-prod/assets/File/pdf/Sterling\\_Assets\\_8.PDF](http://www.cbi.org.uk/cbi-prod/assets/File/pdf/Sterling_Assets_8.PDF)

## CHINA

<b>NOMINAL GDP</b> (US\$ bn, 2016)	11,232
<b>PER-CAPITA GDP (US\$)</b>	8,123
<b>POPULATION</b> (m)	1,383
<b>REAL GDP GROWTH</b> (% change yoy, 2016)	6.7
<b>REAL GDP GROWTH</b> (2012-16, annual average % change)	7.3
<b>CURRENT-ACCOUNT BALANCE</b> (US\$ bn)	196.4
<b>CURRENT-ACCOUNT BALANCE</b> (% of GDP)	1.7

The prominence of China in the global economy has changed markedly in recent decades. With GDP growth averaging just under 10% a year over the last three decades, China is now the world's second largest economy, behind the US.

The importance of China to the UK economy as a trading partner has increased consistently over the past decade, with both imports and exports growing steadily. China is the UK's fourth largest import source behind Germany, the US and Netherlands, accounting for 7.2% of UK goods and services imports in 2016 – up from 4% a decade earlier. During this period, UK exports to China increased from £5.4bn to £16.8bn and now account for 3.1% of UK exports.

Trade in goods dominates the relationship, accounting for around 90% of all trade between the two countries over the past decade. But the UK has made much progress in recent years in strengthening links with China in financial services. UK financial services exports to China totalled £286m in 2016, while imports amounted to £38m. This means that the UK had a financial services trade surplus with China of £248m in 2016. China nevertheless accounts for only 0.4% of total UK financial services exports.

FDI with China has followed a broadly similar trend to trade. The stock of investment held by Chinese firms in the UK totalled £1.8bn at the end of 2015, up from £99m a decade earlier. UK companies held £9.7bn of FDI assets in China at the end of 2015, growing from under £2.2bn ten years earlier. However, China is less important to UK FDI than trade. In 2015, China accounted for 0.2% and 0.9% of total UK inward and outward FDI respectively – small compared with Europe and the US which, in combination, accounted for 83% of the UK's inward investment and 73% of the UK's outward investment position.

Chinese investment in the UK has significantly widened in scale and range of sectors over the years as Chinese investors internationalise their businesses and set out to demonstrate their credibility. For example, China's CC Land spent over £1bn purchasing the 'Cheesegrater' skyscraper in London in 2017. A Chinese private equity fund, PGC Capital, has a five-year plan to invest £600m in UK properties and business parks.

But this is only part of the picture. London is now the major global centre for offshore renminbi business, accounting for some two thirds of all renminbi payments outside mainland China and Hong Kong. A growing number of Chinese financial services companies have established operations in the UK over the past few years. Bilateral cooperation in the financial and related professional services industry is also becoming more complex and extending to supporting policy developments.

## JAPAN

<b>NOMINAL GDP</b> (US\$ bn, 2016)	<b>4,937</b>
<b>PER-CAPITA GDP (US\$)</b>	<b>38,883</b>
<b>POPULATION</b> (m)	<b>127</b>
<b>REAL GDP GROWTH</b> (% change yoy, 2016)	<b>1.0</b>
<b>REAL GDP GROWTH</b> (2012-16, annual average % change)	<b>1.2</b>
<b>CURRENT-ACCOUNT BALANCE</b> (US\$ bn)	<b>188.1</b>
<b>CURRENT-ACCOUNT BALANCE</b> (% of GDP)	<b>3.8</b>

Japan is the world's third-largest economy, after the US and China. The country achieved remarkable growth in the aftermath of World War II, propelled by its sprawling automobile manufacturing and electronics goods industries. Facing increasing competition from China and South Korea, manufacturing in Japan today focuses primarily on high-tech and precision goods, such as optical instruments, hybrid vehicles, and robotics. The country has, however, seen economic stagnation during the last two decades; Japan's current halting return to growth is hampered by the twin challenges of an ageing population and the vast public debt stock. While Japan's government is pushing companies to increase domestic investment and to raise wages to boost demand, stimulate the economy and escape deflation, the pace of improvement remains subdued.

Despite these economic issues, the Japanese market remains vast. The country has a structural trade surplus and has a considerable net international investment surplus. In fact, Japan is the world's largest creditor nation, meaning Japanese investors own more foreign assets than foreign investors own of Japanese assets. Its role in the international community is considerable. It is a major aid donor, and a source of global capital and credit.

Around 450 British companies currently operate in Japan from major FTSE 100 companies to small businesses. In 2016, UK exports to Japan were worth around £12.5bn (40% goods 60% for services). It was the third consecutive year that the UK registered an overall trade surplus with Japan, totalling £1bn.

Financial and insurance services are the UK's largest export of services to Japan, valued at £4.7bn in 2016, on imports of £959m. The stock of Japanese FDI in the UK financial sector totalled around £9.3bn at the end of 2015, representing nearly a quarter of all Japanese FDI into the UK. Correspondingly, the stock of UK FDI into Japan's financial sector reached £372m at the end of 2015.

## INDIA

<b>NOMINAL GDP</b> (US\$ bn, 2016)	2,264
<b>PER-CAPITA GDP (US\$)</b>	1,742
<b>POPULATION</b> (m)	1,300
<b>REAL GDP GROWTH</b> (% change yoy, 2016)	7.1
<b>REAL GDP GROWTH</b> (2012-16, annual average % change)	6.9
<b>CURRENT-ACCOUNT BALANCE</b> (US\$ bn)	-15.2
<b>CURRENT-ACCOUNT BALANCE</b> (% of GDP)	-0.7

The economy of India is the seventh largest in the world and with an average growth rate of approximately 7% over the last two decades, it is also one of the fastest growing. The Indian economy has the potential to become the world's third largest by the next decade, provided the government continues its efforts at structural reform. Notable recent reforms include improvements in the ease of doing business, the introduction of a new Insurance Act in 2015 (which makes it easier for the UK's insurance firms to invest in India) and the passage in July 2016 of legislation introducing a long-awaited Goods and Services Tax, which was implemented in July 2017. But further deep structural reforms – for example, changes to land and labour laws – will likely be required to return the economy to annual growth rates above 8%.

UK goods and services exports to India totalled £5.7bn in 2016, 1% of all UK exports of goods and services, illustrating the high potential for growth. Imports totalled £9.7bn, or 1.6% of all UK imports. In terms of the financial services sector, the UK had a surplus in trade of some £129m, on exports of £225m. The stock of Indian FDI in the UK financial sector totalled nearly £600m at the end of 2013 (latest available data). Correspondingly, the stock of UK FDI into India's financial sector reached £815m at the end of 2015.

The UK has made considerable progress in recent years towards strengthening financial services links with India – including through the private-sector led India-UK Financial Partnership (IUKFP), for which TheCityUK provides the secretariat. London has positioned itself as the leading location for rupee-denominated 'masala' bond issuances with the world's first masala bond from an Indian corporate, Housing Development and Finance Corporation (HDFC), issued in London in July 2016. In December 2015, the London Stock Exchange (LSE) signed a memorandum of understanding with the National Stock Exchange of India.

## THE COMMONWEALTH

	Selected Commonwealth countries				
	Australia	Canada	Malaysia	Singapore	South Africa
<b>NOMINAL GDP</b> (US\$ bn, 2016)	1,262	1,530	297	297	295
<b>PER-CAPITA GDP (US\$)</b>	51,737	42,225	9,374	52,961	5,302
<b>POPULATION</b> (m)	24	36	32	6	56
<b>REAL GDP GROWTH</b> (% change yoy, 2016)	2.5	1.5	4.2	2.0	0.3
<b>REAL GDP GROWTH</b> (2012-16, annual average % change)	2.7	1.8	5.1	3.3	1.6
<b>CURRENT-ACCOUNT BALANCE</b> (US\$ bn)	-33.3	-50.5	7.0	56.5	-9.6
<b>CURRENT-ACCOUNT BALANCE</b> (% of GDP)	-2.6	-3.3	2.4	19.0	-3.3

Comprised of 52 countries representing more than 30% of the world's population, the Commonwealth group of countries spans Africa, Asia Pacific, the Americas and Europe. Bound by historical links to the former British Empire, it is one of the world's most diverse inter-governmental organisations. Member states range from hugely populous countries such as India (population: 1.3bn) and Nigeria (184m) to tiny Pacific Islands such as Tuvalu (11,000).

In terms of economic size and diversity, the group encompasses large developed economies such as Canada; dynamic emerging markets such as India; commodity-dependent economies such as Brunei; and small tourism-dependent islands such as the Maldives. According to the data from the IMF, the group's largest economies are currently the UK (nominal GDP of \$2.6trn in 2016), India (\$2.3trn), Canada (\$1.5trn), Australia (\$1.3trn) and Nigeria (\$405bn). The group's combined GDP is expected to be around \$14.5trn by 2022.

Financial services trade and investment opportunities for the UK will most likely centre on the few Commonwealth countries with relatively large economies and developed financial-services sectors: Australia, Canada, India, Malaysia, Nigeria, New Zealand, Singapore and South Africa.

These countries potentially offer opportunities both now and in future, since they represent a mix of developed and developing countries and the latter's demand for financial and related professional services is likely to increase in line with further rapid economic growth. Financial services trade and investment with the former, meanwhile, is already noteworthy. For example, UK financial services trade with Canada totalled £809m, comprising exports worth £723m and imports worth £86m; for Australia, UK financial services exports and imports were worth £762m and £168m respectively. Meanwhile, the stock of foreign investment in financial services in the UK from Australia was £6bn, and the stock of financial services investment in Australia from the UK was £7.5bn in 2015. For Canada, the figures were £4.7bn and £5.7bn respectively.



# INTERNATIONAL FINANCIAL MARKETS IN LONDON AND THE UK

## 1. Banking

Indicators of the UK's strong international position include:

**Size of the industry:** UK banking sector assets totalled \$8trn in the end of 2016, the fourth largest in the world and the largest in Europe, followed by France (\$7.5trn), Germany (\$7trn) and Italy (\$3.5trn). International banks hold around half of the UK's banking sector assets, while UK owned banks also have around half of their assets outside the country.<sup>6</sup>

**Cross-border banking:** The UK is the largest centre for cross-border banking, with 16% of the outstanding value of international bank lending in Q2 2017. It was also one of the largest centres for cross-border borrowing (18%).<sup>7</sup> London has over 250 foreign banks – more than its nearest rivals New York, Paris or Frankfurt.

**Private and investment banking:** London is one of the most important centres for private and investment banking. Many international banks have their private and investment banking business in the UK, including J.P. Morgan, Goldman Sachs, Bank of America Merrill Lynch, Credit Suisse and RBC Capital Markets.

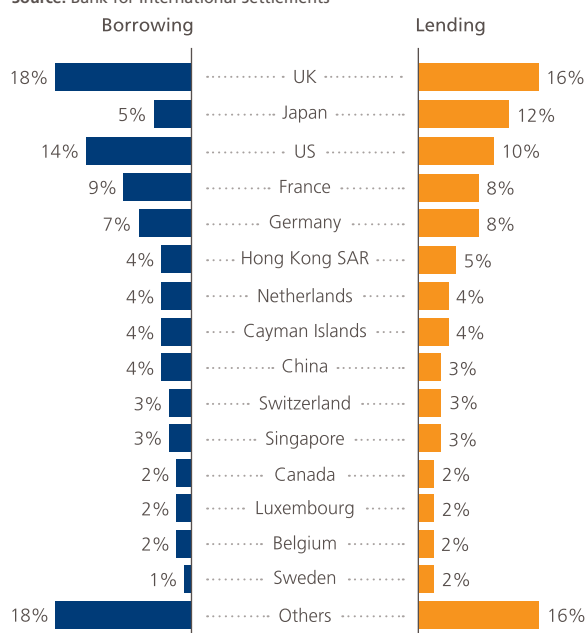
**Figure 5:** Largest banking centres' assets, \$bn, 2016

Source: Central Banks

Banking centre	Assets
China	24,186
US	16,053
Japan	9,934
UK	8,038
France	7,533
Germany	7,045
Italy	3,548

**Figure 6:** International bank borrowing and lending, % share Q2 2017

Source: Bank for International Settlements



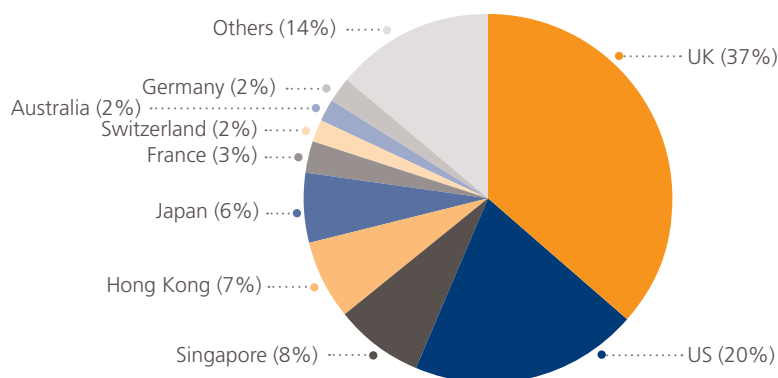
6 Bank of England, 'Bankstats (Monetary & Financial Statistics) – September 2017', (October 2017), available at: <http://www.bankofengland.co.uk/statistics/Pages/bankstats/2017/sep.aspx>

7 TheCityUK calculations based on BIS, 'Cross-border positions, by location of reporting bank and sector of counterparty', (19 October 2017), available at: [https://www.bis.org/statistics/a2\\_1.pdf](https://www.bis.org/statistics/a2_1.pdf)

According to the latest available data from the Bank for International Settlements, the UK accounted for 37% of global foreign exchange trading in April 2016, well ahead of the US (20%), Singapore (8%), Hong Kong (7%) and Japan (6%). The bulk of the UK's daily turnover averaging \$2.4trn in April 2016 was transacted in London. Nearly twice as many US dollars are traded on the foreign exchange market in the UK than in the US. More than twice as many euros are traded in the UK than in all the euro-area countries combined.<sup>8</sup>

**Figure 7:** Foreign exchange trading, % share, April 2016

Source: Bank for International Settlements



## 2. Insurance

The UK insurance industry is the largest in Europe and fourth largest in the world.<sup>9</sup> It consists of insurance companies, the Lloyd's market, intermediaries, and various specialist support professions and services.

The London market is a separate part of the UK insurance and reinsurance industry based in central London. It consists mostly of general insurance and reinsurance and predominantly involves high exposure risks.

The UK insurance market's strong international position is indicated by the fact that:

- The UK is the largest source of both insurance funds and pensions in Europe.<sup>10, 11</sup>
- UK companies feature prominently in rankings of the world's largest insurance companies.
- The UK accounted 6.4% of global and 20.7% of European insurance premiums in 2016.<sup>12</sup>

<sup>8</sup> TheCityUK calculations based on BIS, 'Triennial Central Bank Survey, Global foreign exchange market turnover in 2016', (11 December 2016), p.1, 46, 50, available at: <https://www.bis.org/publ/rpfx16fxt.pdf>

<sup>9</sup> Swiss Re, 'World insurance in 2016: the China growth engine steams ahead', (2017), p.48, available at: [http://www.swissre.com/library/publication-sigma/sigma\\_3\\_2017\\_en.html](http://www.swissre.com/library/publication-sigma/sigma_3_2017_en.html)

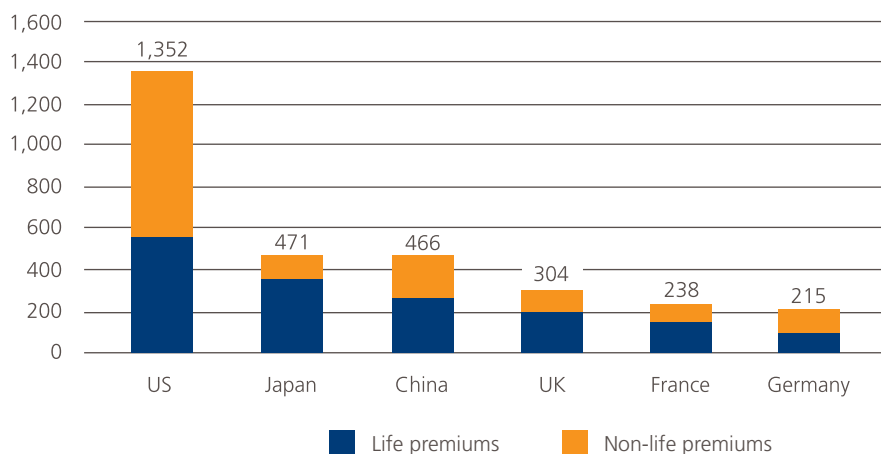
<sup>10</sup> Insurance Europe, available at: <https://www.insuranceeurope.eu/insurancedata>

<sup>11</sup> Willis Towers Watson, 'Global Pension Assets Study 2017', (30 January, 2017), p.6, available at: <https://www.willistowerswatson.com/en/insights/2017/01/global-pensions-asset-study-2017>

<sup>12</sup> Swiss Re, 'World insurance in 2016: the China growth engine steams ahead', (2017), p.48, available at: [http://www.swissre.com/library/publication-sigma/sigma\\_3\\_2017\\_en.html](http://www.swissre.com/library/publication-sigma/sigma_3_2017_en.html)

**Figure 8:** Largest insurance markets, \$bn, 2016

Source: Swiss Re



### 3. Equity and bond markets

#### Equity markets

London's importance as a centre for global equity trading is illustrated by:<sup>13</sup>

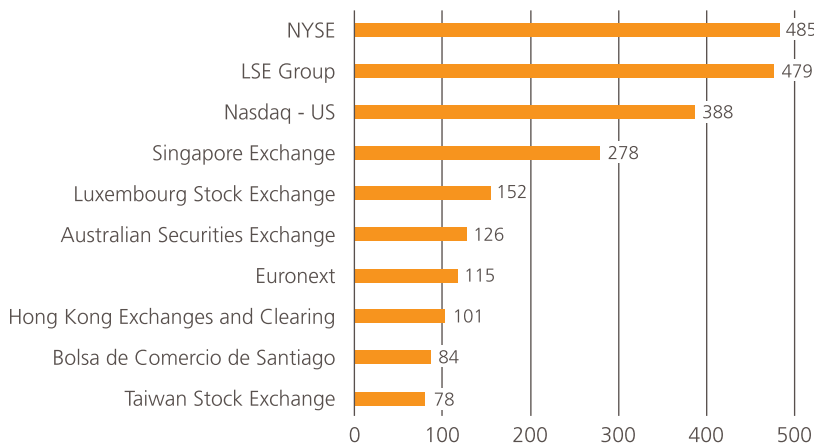
- The 479 foreign companies listed on the LSE in 2016, accounting for 16% of the total global foreign listings, behind the New York Stock Exchange (485) and ahead of the Nasdaq (388).
- £4.7bn new capital raised through IPOs in 2016.<sup>14</sup>
- Its 5% share of global equity market capitalisation and 2.6% of global equity trading by value.
- The UK having the highest equity market capitalisation in relation to GDP of the largest countries – 132% at the end of 2016.

<sup>13</sup> World Federation of Exchanges, 'Statistics', available at: <https://www.world-exchanges.org/home/index.php/statistics>

<sup>14</sup> The London Stock Exchange, 'New and future issues', available at: <http://www.londonstockexchange.com/statistics/new-issues-further-issues/new-issues-further-issues.htm>

**Figure 9:** Number of foreign companies listed, 2016

Source: World Federation of Exchanges



### Bond markets

The UK's substantial domestic market in bonds is complemented by London's continuing role as a major centre for issuance and the trading of international bonds. The outstanding value of international bonds in the UK was the largest in the world at the end of Q1 2017, totalling around \$2.9trn, equivalent to 13.4% of the global total.<sup>15</sup> Eurobonds accounted for 64% of this.<sup>16</sup> London is the leading centre for international bond trading with around 36% of secondary market turnover in 2016.<sup>17</sup>

## 4. Fund management

The UK is one of the largest markets in the world for fund management, along with the US and Japan. UK assets under management totalled a record £8.1trn in 2016. The sector has a strong international orientation reflected in: the institutional presence of a broad mix of UK and foreign firms; equity and bond investments of 69% and 40%, respectively, in overseas markets; and management on behalf of overseas clients of funds totalling £2.6trn among The Investment Association (IA) members.<sup>18</sup>

Some of the key indicators of the UK's international position include:

- **Pension fund assets:** UK's pension assets accounted for 8% of global pension assets in 2016, which was well ahead of other European countries. At nearly 110%, the UK's pension assets-to-GDP ratio was among the highest in the world in that year.<sup>19</sup>

15 BIS, 'Summary of debt securities outstanding', (17 September 2017), p.1, available at: <https://www.bis.org/statistics/c1.pdf>

16 TheCityUK calculations based on BIS, 'United Kingdom: Debt securities issues and amounts outstanding', (17 September 2017), available at: <https://www.bis.org/statistics/c3-GB.pdf>

17 World Federation of Exchange, 'Statistics', available at: <https://www.world-exchanges.org/home/index.php/statistics>

18 The Investment Association, 'Asset Management in the UK 2016-2017, The Investment Association Annual Survey', (September 2017), p.16, 17, 94, available at: <https://www.theinvestmentassociation.org/assets/files/research/2017/20170914-ams2017.pdf>

19 Willis Towers Watson, 'Global Pension Assets Study 2017', (30, January, 2017), p.6, available at: <https://www.willistowerswatson.com/en/insights/2017/01/global-pensions-asset-study-2017>

- **Mutual funds:** Over \$1.5trn is managed by UK mutual funds.<sup>20</sup>
- **Insurance funds:** The UK insurance industry has the third largest funds under management after the US and Japan.
- **Overseas clients:** The £2.6trn (37% of total UK assets for IA members) managed on behalf of overseas clients in the UK cannot be directly compared with any other centre, but is unlikely to be exceeded by any other country other than the US.

**Figure 10:** Conventional investment management assets, \$bn, end 2016

**Note:** Insurance sector is based on 2015 data.

**Sources:** Willis Towers Watson, Investment Company Institute, Insurance Europe, The General Insurance Association of Japan, The Life Insurance Association of Japan, Insurance Bureau of Canada, Canadian Life and Health Insurance Association, Insurance Information Institute, International Monetary Fund

	Pension funds	Insurance assets	Mutual funds	Total conventional	% share of Total conventional
US	22,480	5,200	18,868	46,548	46
Japan	2,808	3,747	1,471	8,026	8
UK	2,868	2,503	1,511	6,882	7
France	146	2,474	1,880	4,501	4
Canada	1,575	657	996	3,229	3
Others	6,558	9,418	15,649	31,625	31
<b>Total</b>	<b>36,435</b>	<b>24,000</b>	<b>40,376</b>	<b>100,811</b>	<b>100</b>

## Hedge funds

London is the world's second-largest centre for hedge fund managers, after New York. The UK had £285bn in assets under management (nearly 13% of global assets) in the hedge fund sector in 2016—an increase of more than 50% over the past five years.<sup>21</sup> The UK remains by far the largest centre for hedge funds in Europe.

The UK is also the leading centre for hedge fund services such as administration, prime brokerage, custody and auditing.

## Private equity

The UK private equity market is the most developed outside the US. Private equity funds based in the UK accounted for 29% of European investments and 56% of funds raised in 2016.<sup>22</sup> London is the largest European centre for the management of private equity investments and funds. Over the past decade, the UK private equity industry has invested around £180bn in over 11,000 firms worldwide.<sup>23</sup>

<sup>20</sup> Investment Company Institute, 'Supplement: Worldwide Public Table, Second Quarter 2017, Data in US Dollar (xls)', (27 September 2017), available at: <https://www.ici.org/research/stats/worldwide>

<sup>21</sup> TheCityUK calculations based on The Investment Association, 'Asset Management in the UK 2016-2017, The Investment Association Annual Survey', (September 2017), p.16, available at: <https://www.theinvestmentassociation.org/assets/files/research/2017/20170914-ams2017.pdf>

<sup>22</sup> TheCityUK calculations based on Invest Europe, 'European Private Equity Activity Data 2016', (05 July 2017), available at: <https://www.investeurope.eu/research/invest-europe-publications/#>

<sup>23</sup> TheCityUK calculations based on British Private Equity & Venture Capital Association, 'Report on Investment Activity 2016', (Summer 2017), p.4, available at: <https://www.bvca.co.uk/Research/Industry-Activity>

**Figure 11:** Private equity investments and funds raised in Europe, % share, 2016

Source: Investment Europe

	Investments		Funds raised
	Country of management	Country of destination	Country of management
United Kingdom	29	16	56
France	28	22	19
Germany	10	13	4
Italy	8	11	2
Sweden	5	3	5
Spain	4	7	3
Netherlands	4	7	3
Switzerland	2	4	1
Norway	2	2	2
Denmark	2	3	1
Other	7	12	5
Total	100	100	100

## 5. Derivatives trading

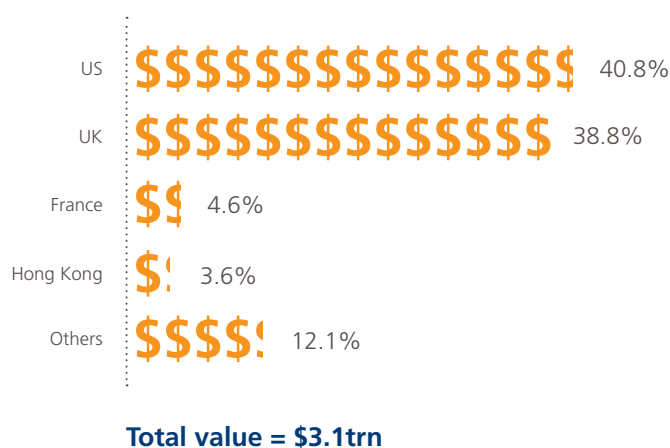
The UK remains a leading derivatives centre worldwide, with a 39% share of trading OTC interest-rate derivatives in 2016. The US is the only other major location, with 41% of trading.

There are a number of derivatives exchanges operating in the UK:

- NYSE Liffe, the leading exchange for trading in short term euro interest rates contracts. Liffe is now part of the Intercontinental Exchange group.
- London Metal Exchange, the biggest non-ferrous metals exchange in the world.
- ICE Futures Europe, the largest regulated energy futures exchange in Europe, and the second largest in the world.
- Turquoise Derivatives London, which offers trading of derivatives based on pan-European and International Order Book equities.
- NASDAQ OMX NLX, a London based market for trading interest rate derivatives.

**Figure 12:** Location of OTC interest rate derivatives daily average turnover, % share, April 2016

Source: Bank for International Settlements



## 6. Commodities trading

Major derivatives exchanges located in London are: NYSE Liffe, Europe's biggest exchange for 'soft commodities'; London Metal Exchange, the leading global exchange for non-ferrous metals; and ICE Futures Europe, the biggest exchange for energy products in Europe. The UK is also home to a number of international commodity organisations such as the International Coffee Organisation, the Grain and Feed Trade Association and International Sugar Organisation. London as the leading international financial centre benefits from being the preferred location for many international firms trading in commodities as well as investment banks and other financial institutions that trade in commodities derivatives.

### Bullion markets

A large proportion of trading in precious metals takes place on the OTC market in London. The average daily volume of gold and silver cleared at the London Bullion Market Association (LBMA) in 2016 was 19.5m ounces (worth \$24.3bn) and 171.8m ounces (\$3bn) respectively. London is also a leading centre for energy brokers operating in energy and carbon markets.<sup>24</sup>

<sup>24</sup> TheCityUK calculations based on The London Bullion Market Association, 'London Bullion Market Clearing Statistics', (2017), available at: <http://www.lbma.org.uk/clearing-statistics>

## 7. Green finance

The UK has played a key role in the development of the global green finance industry. The UK's Green Investment Bank was one of the world's first green banks and has played an important role as an investor in more than 100 green infrastructure projects. The UK's status as a green finance pioneer was further illustrated by the European Investment Bank issuing the world's first green bond in 2007, which was listed on the LSE.

As of September 2017, there were 45 green bonds listed on the LSE that had raised around \$12.1bn in seven different currencies, according to the LSE. The LSE launched dedicated green bond segments in 2015.

Given that climate change is fundamentally an international challenge, green finance is a sector that may lend itself particularly well to cross border transactions. The UK's global leadership in cross border financial and related professional services means that it is uniquely placed to continue to develop its global green finance leadership in particular.<sup>25</sup>

## 8. Maritime business services

The UK maritime business services sector provides services to the international shipping industry which, through the movement of cargoes, is vital in enabling the world economy to function. London is the world's leading centre for the supply of a wide range of financial and related professional services to the international shipping industry including: banking, insurance, shipbroking, legal services, accounting services, ship classification, education and publishing.

Menon Economics, a consultancy, ranks London as the fifth leading maritime capital in the world by five measurements: shipping, finance and law, maritime technology, ports and logistics, and attractiveness and competitiveness.<sup>26</sup>

**Figure 13:** Leading maritime capitals of the world, 2017

Source: Menon Economics

	Overall rank	Shipping	Finance and law	Maritime technology	Ports and logistics	Attractiveness and competitiveness
1	Singapore	Singapore	London	Oslo	Singapore	Singapore
2	Hamburg	Hamburg	Oslo	Singapore	Shanghai	Oslo
3	Oslo	Athens	New York	Tokyo	Rotterdam	Copenhagen
4	Shanghai	London	Singapore	Shanghai	Hong Kong	Hamburg
5	London	Hong Kong	Shanghai	Busan	Hamburg	Dubai

<sup>25</sup> TheCityUK, 'Growing Green Finance', (September 2017), available at: <https://www.thecityuk.com/assets/2017/Reports-PDF/Growing-Green-Finance.pdf>

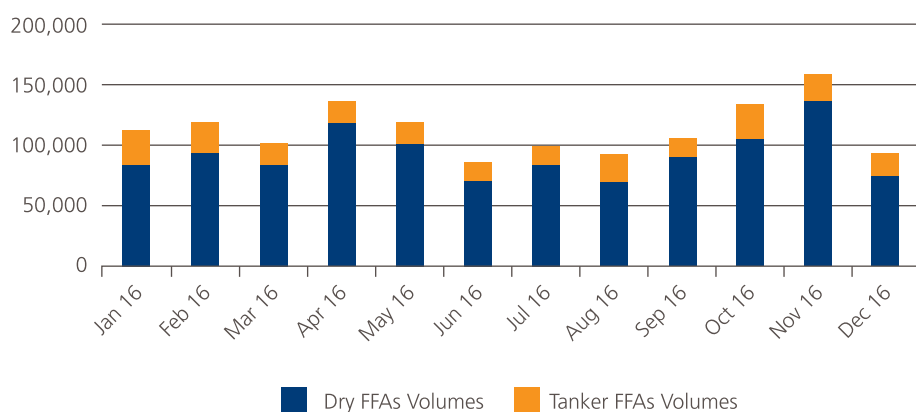
<sup>26</sup> Menon Economics, 'The Leading Maritime Capitals of the World 2017', (2017), p.4-5, available at: <https://www.menon.no/wp-content/uploads/2017-28-LMC-report.pdf>



Shipbrokers in the UK operate at the centre of the international shipping business, bringing together ship owners, charterers and other related parties. Shipbrokers are represented by the Baltic Exchange, the world's only independent source of maritime market information for the trading and settlement of physical and derivatives contracts. Baltic members are also involved in the sale and purchase of over half the world's new and second hand tonnage. OTC derivatives market trading of Forward Freight Agreements (FFAs) by shipbrokers on the Baltic Exchange totalled around 1.4m lots in 2016, 82% of which was dry FFA and 18% was tanker FFA.<sup>27</sup>

**Figure 14:** Trading of Forward Freight Agreements (FFAs) by shipbrokers on the Baltic Exchange, lots

Source: The Baltic Exchange



## 9. Islamic finance

The UK's profile as the leading Western centre for Islamic finance has grown in recent years, although institutions in London and other UK cities have been providing Islamic finance and related professional services for nearly 40 years.

The latest Islamic Finance Development report (2016) by the Islamic Corporation for the Development of the Private Sector (ICD) and Thomson Reuters ranks the UK 22nd out of 124 countries in terms of its overall Islamic finance offering. This puts it in first place in Europe, and fourth among non-Muslim-majority nations (after Singapore, Sri Lanka and South Africa).

<sup>27</sup> The Baltic Exchange, 'Volumes: Measuring the market', available at: <https://www.balticexchange.com/ffa/volumes>

**Figure 15:** Islamic finance development indicator (IFDI) in selected countries

Source: ICD - Thomson Reuters

IFDI Index score	
<b>Global leaders</b>	
Malaysia	123
Bahrain	87
United Arab Emirates	66
<b>Non-Muslim-majority countries</b>	
Sri Lanka	24
South Africa	20
Singapore	18
UK	15
Philippines	6
<i>Global average</i>	8.8

The number of institutions located in the UK that offer Islamic finance services is nearly double the number located in the US and far ahead of other Western countries. Assets of UK-based institutions that offer Islamic finance services totalled more than \$5bn in 2016.

There are currently five fully Sharia compliant banks licensed in the UK, which puts it ahead of other Western countries. Total Sharia compliant banking assets in the UK were around \$4.5bn in 2016. There are also a number of conventional banks that provide Islamic finance services from a UK base. In total, over 20 banks in the UK offer Islamic finance services. This substantially exceeds the number in any other Western country or offshore centre and is nearly double the number in the US.

The UK was the first Western nation to issue a sovereign sukuk. In 2014, the UK government sold £200m of sukuk, maturing in 2019, to investors based in the UK and in major global hubs for Islamic finance. The UK's first sovereign sukuk was oversubscribed with very strong demand and orders totalling around £2.3bn.

Net assets of Islamic funds in the UK amount to \$728m. A total of seven Sharia compliant exchange traded funds (ETFs) are listed on the LSE.<sup>28</sup>

## 10. Infrastructure investment

UK-based financial and related professional services firms have provided private investment in UK public infrastructure through Public Private Partnerships (PPPs). Through PPPs, more than 700 projects with capital value of more than £50bn have been funded. The UK government aims to invest over £483bn up to 2021 and beyond in its National Infrastructure Plan. Half of this will need to come from a diverse range of private investment sources.<sup>29</sup>

<sup>28</sup> TheCityUK, 'Global Trends in Islamic Finance and the UK Market', (September 2017), available at: <https://www.thecityuk.com/assets/2017/Reports-PDF/Global-trends-in-Islamic-finance-and-the-UK-market.pdf>

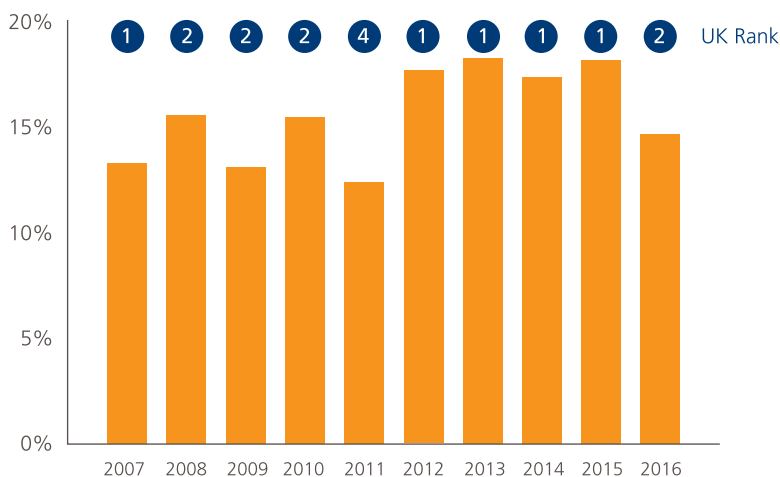
<sup>29</sup> TheCityUK, 'Key Facts: About UK-Based Financial and Related Professional Services', (April 2017), p.17, available at: <https://www.thecityuk.com/assets/2017/Reports-PDF/UK-Key-Facts-2017-updated.pdf>

The UK has published a National Infrastructure Delivery Plan annually since 2010 and created a National Infrastructure Commission for long-term planning and an Infrastructure and Projects Authority to oversee delivery. The expertise, now held by the public and private sectors, has helped the UK to become a leading destination for and provider of project finance.

The UK project loans market was worth \$18.1bn (14.7% of total EMEA loans) in 2016, the second largest in EMEA countries just after Russia (\$19.1bn or 15.5% of total EMEA loans). UK project loan volumes were among the top of the list in EMEA over the past decade, based on the data from the Thomson Reuters Project Finance International (PFI) Financial Legal table.<sup>30</sup>

**Figure 16:** UK share of EMEA loans

Source: PFI Financial League Tables



<sup>30</sup> Thomson Reuters, 'Project Finance International Annual League Table', (2016), p.73, available at: <http://www.pfie.com/Journals/2017/01/24/rx/q/PFILeagueTables2016.pdf>

## ROLE OF LONDON AND THE UK AS THE GLOBAL HUB FOR FINTECH

**Financial Technology, or FinTech, represents the intersection of innovative technology and financial services. Although it has strong associations with disruptive business models developed by new organisations, it is much broader and is being adopted and developed by companies of all sizes and stages of development.**

Following the financial crisis, lower risk appetites among retail banks limited access to traditional bank intermediated lending. At the same time, alternative lending platforms, from peer-to-peer lending to crowdfunding, began demonstrating rapid growth. These platforms use alternative adjudication methods and lean automated processes to offer loans to a broader base of businesses.

FinTech companies are generally start-ups founded with the purpose of replacing and challenging traditional financial systems and corporations that are less reliant on software. This includes sectors such as mobile payments, money transfers, loans and fundraising. These firms typically operate with sizeable cost savings compared to their more traditional counterparts. They are far more agile not having the same overheads, and their relative lack of size allows them to innovate and adapt more quickly. Further technological developments such as artificial intelligence and better data analytics, coupled with changing consumer mindsets, will continue to facilitate innovative finance models. This will create both threats and opportunities for existing banks, insurance companies and other financial services providers in the coming years.

London is the leading international financial hub and offers a wealth of talent and expertise. This, combined with a network of FinTech centres throughout the country, a strong venture capital base, tax breaks for start-ups and hubs such as Tech City, have helped boost the UK's global position as a global FinTech leader.

According to research from EY, average revenue generated by the UK's FinTech sector grew by 22%, during the period 2014-16, reaching £5m in 2016. UK FinTech companies are generally small: half of the companies have 10 or fewer employees, and 95% of FinTech firms employ fewer than 150 people.<sup>31</sup>

Investments in the UK's FinTech sector have been growing significantly in recent years and are expected to continue growing in the future. For example, BI Intelligence forecasts that peer-to-peer lending in the UK will grow at a five year compound annual growth rate of 45% from £2.4bn (\$3.5bn) in 2015 to £16bn (\$23bn) in 2020; such rapid anticipated growth is likely to fuel continued investment into the sector.<sup>32</sup>

While London is positioned as a leading global centre for FinTech, there is increasing competition from emerging FinTech hubs, particularly those in Asia. However, only a few global cities at the moment can compete with London's comprehensive package of FinTech start-up opportunities and support in terms of technology, infrastructure and finance.

Research by TheCityUK and PwC sets out a vision in which by 2025 the UK financial services industry will have transformed itself to be highly digitised, innovative and customer-centric. It will be a leader in cyber security, using data in a secure and sophisticated way. This will be alongside new technologies that drive forward significant improvements in the way services are delivered.<sup>33</sup>

The UK government and regulators have recognised the significant opportunity provided by FinTech and are committed to supporting the development of the sector across the country. Recent initiatives have included measures to support alternative lenders and the digital currency sector, and an industry led initiative to give consumers better access to their bank data. In 2014 the Financial Conduct Authority (FCA) launched Project Innovate and subsequently established the Innovation Hub – a support unit for innovative businesses to help them understand the regulatory framework and apply for authorisation. In its first year, Project Innovate helped over 175 innovative businesses, five of which have now been authorised to undertake regulated activities. Since May 2016, Project Innovate has been extended to include a regulatory sandbox. This is a 'safe space' in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences of pilot activities.

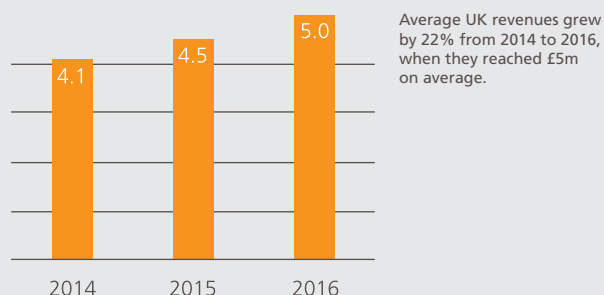
<sup>31</sup> HM Treasury, EY and Innovate Finance, 'UK FinTech Census 2017: The Voice of FinTech', p.10-15, available at: [http://www.ey.com/Publication/wLUAssets/EY-UK-FinTech-Census-2017/\\$FILE/EY-UK-FinTech-Census-2017.pdf](http://www.ey.com/Publication/wLUAssets/EY-UK-FinTech-Census-2017/$FILE/EY-UK-FinTech-Census-2017.pdf)

<sup>32</sup> TheCityUK and Deloitte, 'A FinTech Strategy for the UK Financial and Related Professional Services Industry', (October 2016), p.16

<sup>33</sup> For details see TheCityUK and PwC, 'A Vision for a Transformed, World-Leading Industry: UK-Based Financial and Related Professional Services', (July 2017), available at: <https://www.thecityuk.com/assets/2017/Reports-PDF/A-vision-for-a-transformed-world-leading-industry.pdf>

**Figure 17:** Average UK revenue, £m

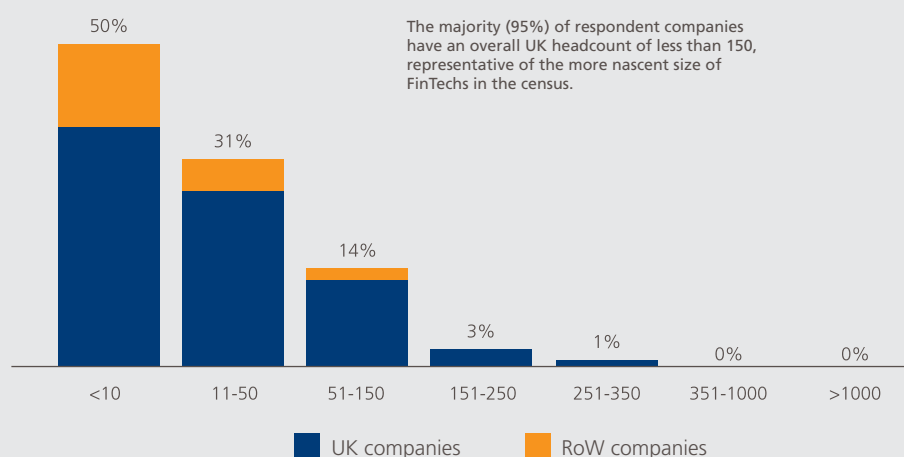
Source: EY



Note: The average number is based on companies that provided revenue data and had UK revenue for those years in question (2014 - 68, 2015 - 95, 2016 - 134).

**Figure 18:** Distribution of UK FinTech employees by firm size, % of total

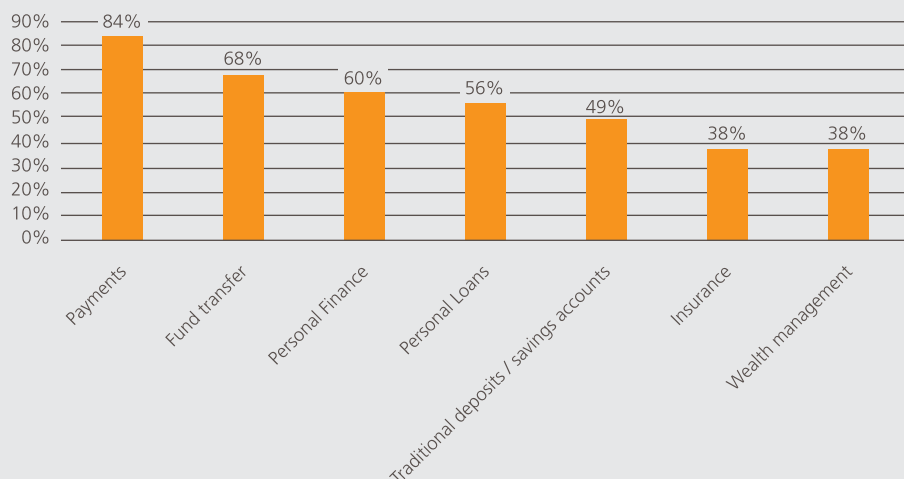
Source: EY



Note: The chart above is representative of all 245 respondents. Numbers have been rounded to the nearest percentage.

**Figure 19:** Percentage of incumbents that think their consumers use FinTech

Source: PwC Global FinTech Report



## MAKING THE UK-BASED FINANCIAL AND RELATED PROFESSIONAL SERVICES INDUSTRY MORE RESILIENT TO A CYBER ATTACK

TheCityUK Cyber Advisory Group continues to focus on taking forward the recommendations of TheCityUK and Marsh report, 'Cyber and the City' launched in May 2016, including enhancing board engagement with cyber risk.

As part of this, TheCityUK and Marsh are undertaking a board benchmarking project. It will examine how boards govern cyber risk management and provide participants with feedback on how they benchmark against their peer group and the broader financial and professional services industry. The final report, to be launched in 2018, will include:

- A framework illustrating the key features of board governance.
- An evolution of how firms are progressing along that framework.
- Examples of effective board governance in action.
- Specific best practice recommendations that could be adopted across the industry.

This work aligns with TheCityUK's report 'A vision for a transformed, world-leading industry', which included the recommendation that the industry works with government and regulators to develop the industry's cyber resilience capabilities to better protect the data and digital assets of customers and firms.

# ROLE OF LONDON AND THE UK AS A GLOBAL PROVIDER OF PROFESSIONAL SERVICES

## 1. Legal services

The UK has a strong reputation as the leading global centre for the provision of international legal services and dispute resolution. It is also an important centre for legal education and training.<sup>34</sup>

The UK accounts for around 7% of global legal services fee revenue, which totalled between \$580bn and \$640bn in 2016. It is by far the largest market for legal services in Europe and second only to the US globally. The UK is very open in allowing virtually unrestricted access for foreign law firms. Over 200 foreign law firms from around 40 jurisdictions – employing in excess of 10,000 people – operate in London and other cities across the UK.

The popularity of English law is an important factor contributing to the UK's strong global position and attractiveness to foreign law firms. Some 27% of the world's 320 legal jurisdictions use English common law. The choice of English law for global commercial contracts is in part driven by the UK's reputation as the leading centre for international dispute resolution – whether through litigation, arbitration or mediation.

The leading global position of international law firms based in the UK is underlined by the following facts:

- Five of the largest 15 Global 100 law firms, based on number of lawyers in 2016/2017, have their main base of operations in the UK. In terms of revenue, UK-based firms held three of the top ten places.
- The largest international law firms in London have between 45% and 65% of their lawyers based outside the UK, and many other London-based firms have between 10% and 20% of lawyers overseas. Nearly 7,000 practicing solicitors from the UK were located abroad in 2016, according to the Law Society of England and Wales.

## 2. Accounting services

The UK occupies a key position in the delivery of accounting services worldwide with many of the largest global firms headquartered there.

Net exports from UK accounting services totalled £1.2bn in 2016.

The Institute of Chartered Accountants in England and Wales (ICAEW) shows more than 80 companies in the largest 100 UK listings have at least one ICAEW chartered holder on their board.<sup>35</sup>

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<sup>34</sup> TheCityUK, 'UK Legal Services 2017: Legal Excellence, Internationally Renowned', (November 2017), available at: <https://www.thecityuk.com/assets/2017/Reports-PDF/Legal-excellence-internationally-renowned-Legal-services-2017.pdf>

<sup>35</sup> TheCityUK, 'Key Facts: About UK-Based Financial and Related Professional Services', (April 2017), p.17 available at: <https://www.thecityuk.com/assets/2017/Reports-PDF/UK-Key-Facts-2017-updated.pdf>

### 3. Management consultancy

Management consulting has been one of the fastest growing industries in the UK in recent years. A key feature of management consultancy in the UK is the concentration of activity amongst a few large and medium sized international firms at one end of the scale, and a large number of specialist smaller firms which have specific expertise or skills at the other end.

The UK is a significant exporter of management consulting services – according to Office for National Statistics data (using a wider definition of business management and management consulting) net exports totalled £7.1bn in 2016.

### 4. Financial services education and training

A range of UK-based organisations provides education and training in financial and related professional services internationally.

Universities and business schools have a key role in attracting foreign students to the UK. 438,000 non-UK students (or around 20% of all higher-education students) were studying at the tertiary level in the UK in 2015-16, according to data from UK Council for International Student Affairs.<sup>36</sup>

Specialised training services are offered by a variety of providers including exchanges, specialist training firms and industry associations. For example, the LSE offers the LSEG Academy to support market participants.<sup>37</sup> UK Finance also runs its own training workshops on various topics, such as compliance, risk management and presentation skills for practitioners.<sup>38</sup>

UK-based professional institutions play a key role in the development of accounting skills throughout the world. For example, according to data from the Financial Reporting Council, there are over 350,000 members in seven main accountancy bodies in the UK. These qualifications represent a global standard, as well as providing a training ground for the next generation of business leaders.<sup>39</sup>

The government, the British Standards Institute, and the Green Finance Initiative, which is led by the City of London Corporation, are currently working together to develop standards for management of green and sustainable finance.

<sup>36</sup> UK Council for International Student Affairs, 'International student statistics: UK higher education', available at: [https://institutions.ukcisa.org.uk/Info-for-universities-colleges--schools/Policy-research--statistics/Research--statistics/International-students-in-UK-HE/#International-\(non-UK\)-students-in-UK-HE-in-2015-16](https://institutions.ukcisa.org.uk/Info-for-universities-colleges--schools/Policy-research--statistics/Research--statistics/International-students-in-UK-HE/#International-(non-UK)-students-in-UK-HE-in-2015-16)

<sup>37</sup> The London Stock Exchange, 'Academy Training', available at: <http://www.londonstockexchange.com/traders-and-brokers/training-services/about-us.htm>

<sup>38</sup> UK Finance, 'Training Workshops', available at: <https://www.ukfinance.org.uk/training/>

<sup>39</sup> Financial Reporting Council, 'Key Facts and Trends in the Accountancy Profession', (July 2017), p.7, available at: <https://www.frc.org.uk/getattachment/77fc8390-d0d1-4bfe-9938-8965ff72b1b2/Key-Facts-and-Trends-2017.pdf>

## OUR INTERNATIONAL PROGRAMME

TheCityUK works to maintain and improve international competitiveness for the UK by supporting market opportunities for its members through an extensive programme of work on trade and investment policy. We support inter-governmental initiatives around financial and related professional services and have a strong dialogue with regulators, governments and industry bodies internationally. We have been engaged in recent World Trade Organisation negotiations, the Trade in Services Agreement and are a leading contributor to global regulatory coherence. Our international policy work is split into activity focussed on specific geographies alongside a thematic programme of work.

### Thematic focus

**Global regulatory coherence:** Regulatory divergence and non-tariff barriers significantly impact global trade in financial and related professional services. We are actively working to drive regulatory coherence with our international trading partners to address any barriers to trade.

**Trade and investment policy:** Through the Liberalisation of Trade in Services Committee (LOTIS) TheCityUK works to promote favourable trade and investment policy for the industry. We regularly engage with the most senior policymakers and regulators within the international community.

**Islamic finance:** Through the Islamic Finance Sectoral Advisory Group TheCityUK provides thought leadership on the direction of policy and activity relating to members' interests in Islamic Finance. It also encourage the use of Islamic financial structures for inward investment, project finance etc and to promote the use of Sukuk as an asset class with large funds and investors from the UK and overseas.

**Legal services:** TheCityUK's Legal Services Sectoral Advisory Group focuses on ensuring the continued competitiveness of the UK legal services sector, and promoting the use of UK legal services on the international stage.

### Geographical work

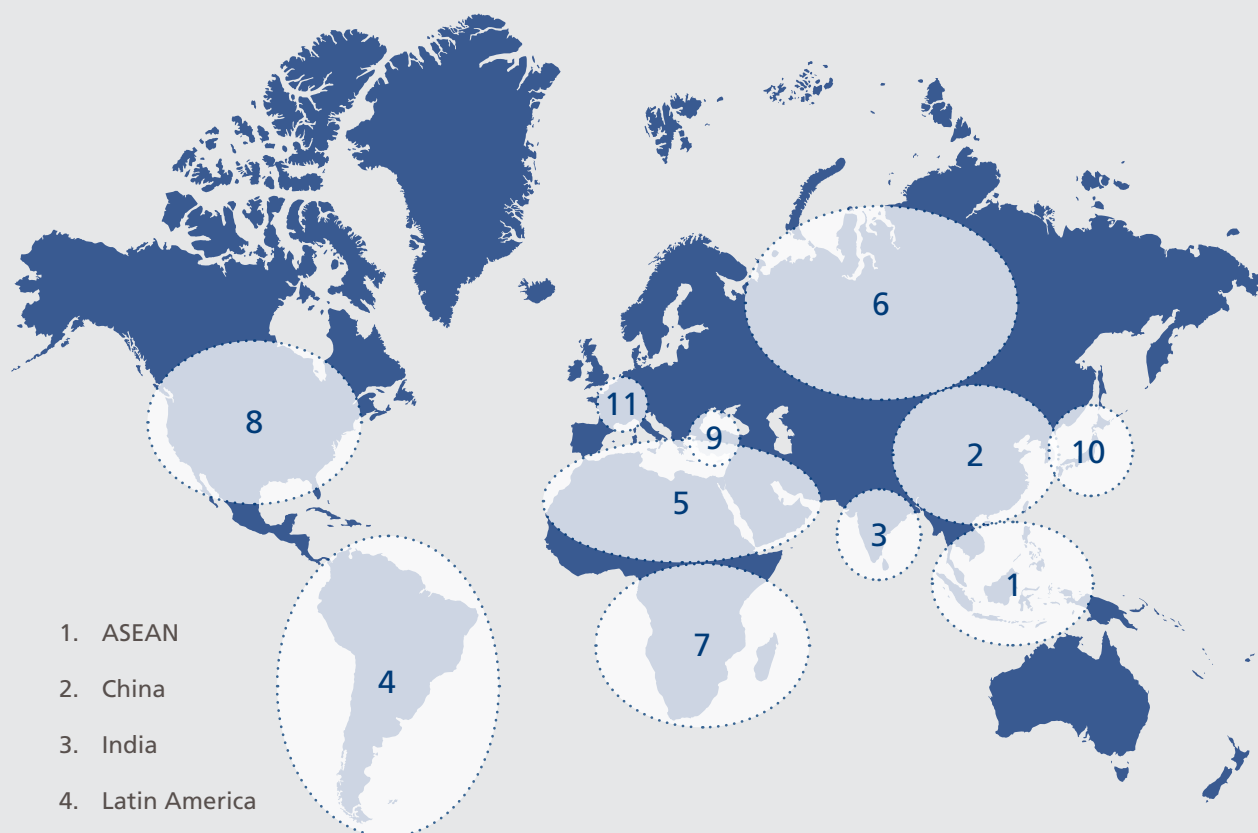
**China:** TheCityUK works with policymakers in the UK and China to promote the strengths and expertise of our members to our Chinese partners and increase the opportunities available in the China market to UK business. We are committed to highlighting the UK as the global centre for financial and related professional services, the best place to raise capital and a prime destination for inward investment. Our China Market Advisory Group helps frame the strategic priorities for our industry and is run jointly with the China-Britain Business Council (CBBC). This group progresses practical initiatives to strengthen engagement with China under a number of thematic work streams, and feeds into a collaborative private-public sector UK approach through the HM Treasury-chaired FSTIB and the annual UK-China Economic and Financial Dialogue (EFD) between the Chancellor of the Exchequer and the Chinese Vice Premier. Additionally, the Chinese Market Advisory Group works closely with the Chinese financial sector to provide business support for the EFD. Areas of focus include FinTech, green finance, capital markets and international use of the renminbi, Belt and Road, and opportunities for mutual understanding and knowledge sharing. This builds on TheCityUK's work to deliver key analysis and policy debate on helping China develop its free trade zone (FTZ) policy, which has had wide resonance in terms of the next steps of economic reform in China.

**India:** TheCityUK works to develop closer trade and investment ties between the UK and India. We run the UK secretariat for the India-UK Financial Partnership (IUKFP), which was launched by the Chancellor of the Exchequer and the Finance Minister of India in 2014. At the Ministers' request, we and our Indian partners in Kotak Mahindra Bank have published policy papers with recommendations for action on a number of areas aligned to India's development priorities. These include development of the corporate bond market, pensions, infrastructure funding, insolvency practice, financial inclusion, reinsurance, corporate governance, green finance and internationalisation of the rupee. Recommendations from these papers have been well-received by authorities in both countries and a number have already been adopted, including in drafting India's new insolvency laws. TheCityUK continues to work with UK and Indian partners to support the implementation of recommendations across the breadth of this work. The achievements of the Partnership were acknowledged by Prime Ministers Modi and Cameron during the visit of Mr Modi to the UK in November 2015, and again by the Prime Ministers May and Modi during Mrs May's visit to Delhi in November 2016. Also in 2016, the Chancellor of the Exchequer and the Finance Minister of India singled out the IUKFP as the principal forum for financial sector cooperation between the two countries. Future papers are expected to cover FinTech, ease of doing business in India, and the future bilateral trade and investment relationship. TheCityUK's India Market Advisory Group helps deliver the work of the IUKFP in collaboration with financial and related professional services firms in India.



**The US:** There is significant scope for further regulatory coherence and trade liberalisation initiatives with the US ahead of a post-Brexit free trade agreement. The US has a central role in the development of international rule making. TheCityUK's involvement in the B20, the Coalition of Services Industries and the WTO's liberalisation of trade in services agenda are all examples of where we have worked closely with US firms and partner organisations to pursue the trade, investment and regulatory coherence agenda. Our US Market Advisory Group provides thought leadership and acts as an umbrella for our US-related activity driving key projects that have the potential to create new and lasting opportunities for developing dialogue and business between the UK and the US.

TheCityUK runs a number of market advisory groups for other countries and regions. These cover the **ASEAN** region, **Latin America**, the **Middle East** and **North Africa**, **Eurasia**, **Sub Saharan Africa**, **Japan**, **Switzerland** and **Turkey**. Our work in these groups focuses on improving trade and investment policy, promoting regulatory coherence, highlighting public and private partnerships and identifying investment opportunities. Our market work also supports a programme of international inbound and outbound visits of senior decision makers designed to further our policy objectives and build networks and opportunities for our members.



1. ASEAN
2. China
3. India
4. Latin America
5. MENA
6. Eurasia
7. Sub Saharan Africa
8. North America
9. Turkey
10. Japan
11. Switzerland





## TheCityUK Research:

For content enquiries, further information about our work or to comment on our programme/reports, please contact:

Anjalika Bardalai, Chief Economist and Head of Research

[anjalika.bardalai@thecityuk.com](mailto:anjalika.bardalai@thecityuk.com)

+44 (0)20 3696 0111

Mingjie Tang, CFA, Economic Research Analyst

[mingjie.tang@thecityuk.com](mailto:mingjie.tang@thecityuk.com)

+44 (0)20 3696 0149

# TheCityUK

TheCityUK, Salisbury House, Finsbury Circus, London EC2M 5QQ

[www.thecityuk.com](http://www.thecityuk.com)

## MEMBERSHIP

To find out more about TheCityUK and the benefits of membership visit

[www.thecityuk.com](http://www.thecityuk.com) or email us at [membership@thecityuk.com](mailto:membership@thecityuk.com)

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