About TheCityUK

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 2.3m 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.
OUR INDUSTRY SUPPORTS EMPLOYMENT AND GROWTH

1 IN EVERY 14 PEOPLE

WORK ACROSS THE UK IN FINANCIAL AND RELATED PROFESSIONAL SERVICES

2/3 OF WHOM ARE OUTSIDE OF LONDON

FINANCIAL AND RELATED PROFESSIONAL SERVICES CONTRIBUTE

£11 OF EVERY £100 OF UK ECONOMIC OUTPUT

TAX REVENUE

UK FINANCIAL SERVICES CONTRIBUTED

£72.1BN IN TAX REVENUE IN 2016/2017

THE LEGAL AND ACCOUNTING SECTOR CONTRIBUTED

£15.5BN IN TAX REVENUE IN 2015/2016
KEY FACTS ABOUT UK-BASED FINANCIAL AND RELATED PROFESSIONAL SERVICES

FINANCIAL SERVICES HAVE OVER 1M PEOPLE IN EMPLOYMENT*

- Banking (408,000)
- Insurance (323,000)
- Fund Management (52,000)

RELATED PROFESSIONAL SERVICES HAVE OVER 1.2M PEOPLE IN EMPLOYMENT

- Management Consultancy (514,000)
- Accounting Services (366,000)
- Legal Services (342,000)

*Other financial services account for 290,000 employees

TRADE SURPLUS

- UK Financial Services: £68.2BN
- UK Financial and Related Professional Services: £80.5BN

FOREIGN DIRECT INVESTMENT

Financial Services Attracted

- £22.7BN (≈ 10.3%)
- Of Total Inward FDI
Our industry helps people in their everyday lives

99% of adults in the UK have at least one bank account

UK has the 2nd largest pension industry worldwide

Total investments of around £2.9trn

The digital transformation continues

Online banking usage increased

From 30% in 2007 to 63% in 2017

Contactless payments

Monthly transactions = 470m in June 2017, up 115% from June 2016

Increase in banking apps*

- Savings by 30%
- Credit card by 46%
- Mortgage/investment by 86%

* By consumers to access accounts between 2015 and 2016

Our industry keeps businesses working

Loans to UK businesses by major banks

£465bn

£27.2bn raised in issues of shares in 2017

35.6% of these were to SMEs*

* By the end of 2017

UK companies raised

£23.8bn on the LSE markets

£3.4bn in international main markets
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The UK-based financial and related professional services industry makes an important daily contribution to all of our lives. It provides traditional services like saving and mortgage lending. Fund managers and insurance companies look after assets and protect against financial risks. It also makes everyday interactions easier through newer technologies such as contactless cards and mobile banking apps: almost two thirds of people in the UK now use apps to access bank current accounts, up from just 21% in 2012.

The industry plays a vital enabling function, supporting companies in other sectors through bank lending, equity financing and bond issuance, among other activities. Major banks have outstanding loans to UK business worth £465bn. UK companies raised £27.2bn in issues of shares in 2017. SMEs obtain funds for investment and growth from alternative finance and private equity. Investing in infrastructure boosts the efficiency and productivity of the economy. Financial services – together with the related professional services of legal, management consulting and accounting – thus contribute to the economy both directly and indirectly.

UK-based financial and related professional services provide employment for 2.3m people across the country, or 7.4% of total UK employment (around one in every 14 people in employment in the UK is in the industry). Two thirds of those jobs are outside London. Industry GVA totalled £176bn in 2015, representing 10.7% of the total – one of the largest contributions of any industry. As the UK’s largest generator of tax revenues, £14 out of every £100 in tax revenues are paid by the financial services, legal and accounting sectors. UK-based financial and related professional services generated a trade surplus of around £80.5bn in 2016. Although London dominates industry exports, over half of exports came from outside London in 2016.

As this report illustrates, the contribution of the industry is wide-ranging. In the post-Brexit environment, it will be more important than ever for policymakers to work collaboratively with industry to ensure it remains competitive, can continue to serve customers and clients, and can be a foundation for Britain’s success in the years ahead.

Anjalika Bardalai
Chief Economist & Head of Research, TheCityUK
SUPPORTING EMPLOYMENT AND GROWTH ACROSS THE UK

A leading employer

Nearly 2.3m people work across the country in financial and related professional services – including legal services, accounting services and management consultancy – accounting for 7.4% of total UK employment (meaning that around one in every 14 people in employment is in the industry).

- Two thirds of this employment is based outside of London. There are over 30,000 people in employment in financial and related professional service in Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester. This is followed by Belfast, Cardiff, Liverpool and Sheffield with between 18,000 and 23,000 in employment. Other centres with over 12,000 people in employment include Brighton and Hove, Milton Keynes, Newcastle upon Tyne, Northampton, Norwich, Reading, Swindon and Watford.

- Twenty-two towns and cities in the UK each have over 10,000 people in employment in the industry.

- Financial services have over 1m people in employment, the majority of whom are in banking (408,000 in employment) and insurance (323,000 in employment). Fund management provides employment for a further 52,000 and other financial services 290,000. Related professional services have over 1.2m people in employment divided among management consultancy (514,000), accountancy (366,000) and legal services (342,000) (Figure 1).

Figure 1: Employment by sector in UK financial and related professional services, 2016

Source: TheCityUK calculations based on data from Nomis and the Northern Ireland Business Register and Employment Survey
Figure 2: Employment in UK-based financial and related professional services

Source: TheCityUK calculations based on data from Nomis and the Northern Ireland Business Register and Employment Survey

Total Employment*

2,295,000

*Northern Ireland figures are employees
A significant contributor to UK economic output

Across their domestic and international activities, financial and related professional services contributed £176bn to UK gross value added (GVA) in 2015, representing £11 of every £100 of economic output. Financial and related professional services is among the UK’s largest industries as measured by GVA.

A large generator of tax receipts

UK financial services are a vital source of tax receipts, contributing £72.1bn in tax revenue in 2016/17. This accounted for 11% of total UK tax receipts (Figure 3) and was equivalent to 4.5% of UK GDP. A major source of tax receipts was the £31.4bn from employees’ income tax and national insurance contributions. In addition, the contribution of the legal and accounting sector to the UK public finances in 2015/16 was £15.5bn. In total, £14 out of every £100 in tax revenue are paid by the financial services, legal and accounting sectors.

Figure 3: Tax contribution of UK financial services

Source: City of London Corporation and PwC

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Generating a trade surplus and attracting foreign investment into the UK

UK-based financial and related professional services generated a trade surplus of around £80.5bn in 2016, based on data from the Office for National Statistics. This represented 4.1% of GDP. Although London dominates exports, over half of the industry’s exports came from outside London in 2016.

- The UK’s trade surplus in financial services is nearly equivalent to the combined surpluses of the next three leading countries (the US, Switzerland and Luxembourg).
- UK financial and related professional services firms are the face of British businesses across the globe. The industry’s trade surplus is larger than the combined surplus of all other industries in the UK which register trade surpluses (Figure 4). This helps to partly offset UK’s trade in goods deficit of £135.4bn.

**Figure 4:** UK sectors generating trade surplus in £bn, 2016

Source: Office for National Statistics, Pink Book 2017

<table>
<thead>
<tr>
<th>Sector</th>
<th>Surplus (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>68.2</td>
</tr>
<tr>
<td>Other business services</td>
<td>22.7</td>
</tr>
<tr>
<td>Telecommunication, computer and information services</td>
<td>8.3</td>
</tr>
<tr>
<td>Transport</td>
<td>3.9</td>
</tr>
<tr>
<td>Intellectual property</td>
<td>3.8</td>
</tr>
<tr>
<td>Other surplus-generating sectors*</td>
<td>3.3</td>
</tr>
</tbody>
</table>

* Manufacturing on physical inputs owned by others; maintenance and repair; construction; personal, cultural and recreational services

Attracting foreign direct investment to the UK

The UK remains a key destination for financial services investment; the industry attracted £22.7bn of foreign direct investment (FDI) in 2016, 10.3% of total inward FDI.
MAKING A POSITIVE DIFFERENCE TO PEOPLE’S LIVES

Providing broad access to financial products and services

Banks continue to improve the speed and ease with which customers can use their services to manage their everyday finances. Retail finance has been undergoing something of a revolution in recent years, with the use of traditional payment methods like cheques declining sharply in tandem with the rapid rise of more innovative, digitally-enabled payment methods.

Enhancing consumer welfare by embracing digital financial services

In recent years, financial services firms have made multi-billion pound investments to enable their customers to take advantage of innovations, such as internet banking and contactless payments.

The shift away from paper payments continues, with cheques now making up only 0.4% of all payments. The value of cheque payments declined by more than 69% over the last decade to £356bn in 2017 (Figure 5).

Figure 5: Summary of cheque payments from 2007-2017

- In Great Britain, the use of online banking increased 33 percentage points over the past decade, to 63% in 2017 (from 30% previously).
- Contactless payments have increased rapidly in recent years. According to data from UK Finance, the number of monthly transactions made with contactless payment cards reached 470m in June 2017, up 115% from the same period a year earlier.
- Banking app log-ins reached 159 per second with 19.6m users in the UK in 2016. Sixty-one per cent of the population used banking apps to access current accounts in 2017, up from 21% in 2012.
- Access to savings, credit card and mortgage/investment accounts through banking apps also rose by 30%, 46% and 86% respectively between 2015 and 2016.

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12 UK Finance ‘an app-etite for banking’, (29 June 2017), available at: https://www.ukfinance.org.uk/an-app-etite-for-banking/
13 Ibid.
• Insurance is benefiting from digitalisation through improved communication with clients, cost efficiency and business model innovation. According to research by McKinsey, automation can reduce claim costs by 30%. 14

• TISA (the membership organisation focusing on consumer savings and investment) is developing a Digital ID for UK consumers. This will open up financial services to a wider range of consumers, allow the development of new consumer services and encourage the development of FinTech in the UK. Verification of an individual’s identity is an essential tenet of UK financial services regulation, yet no universal facility to enable consumers to identify themselves online currently exists. TISA is leading a project to develop a digital identity for UK consumers. This will be a foundational component in the digitalisation of financial services in the UK. This project is fully aligned with the work being undertaken by the UK Finance and the government’s Digital Service.

Providing bank finance
• Around 8,000 bank branches are available in the UK. The branch remains an important part of the retail finance experience. Counter transactions are falling sharply, but many customers still want to see staff for big life decisions, such as arranging a mortgage.
• Around 99% of adults in the UK have at least one bank account.
• Personal deposits of up to £85,000 in each bank are protected through the Financial Services Compensation Scheme. 15

Providing mortgage finance
Sixty-five per cent of the public enjoy the security of home ownership—a rate which is supported by mortgage lending. 16 There are 11m outstanding mortgages in the UK. The outstanding value of mortgage lending totalled nearly £1.4trn at the end of 2017 (figure 6). 17

More than 1.1m Help to Buy ISA accounts have been opened since the scheme was launched in 2015. Around 700,000 were open as of September 2017 (latest available data), since some have also been closed. Since the launch of the Help to Buy ISA, 106,612 property completions have been supported by the scheme. Nearly 150,000 bonuses have been paid through the scheme, with an average bonus value of £725. The highest proportion of property completions with the support of the scheme is in the North West, and Yorkshire and The Humber. The median age of a first-time buyer in the scheme is 27 compared to a national first-time buyer median age of 30.

In the rental market, private landlords and housing associations, both largely rely on loans from banks and other lenders.
Safeguarding savings and managing investments for the future

UK fund managers help to protect and grow around £8.1tn in financial assets, representing savings through pensions, life assurance policies and other investments. 18

- Seventy-six per cent of UK families and households have savings and pensions that are managed by the UK fund management industry. 19 According to data from The Pensions Regulator, around 7.7m eligible jobholders were automatically enrolled in pensions as of March 2017. 20

- Contributions to personal pension pots totalled around £20bn a year for the past five years, helping savers to achieve their aspirations for independent and fulfilling retirement years. Personal pensions supplement state and occupational pension schemes. 21

- The UK has the second largest pension industry worldwide, with total investments of around £2.9tn at the end of 2016. 22 Pension providers have a key role in delivering cost effective and accessible pensions in the future, which for most people in the private sector will increasingly be defined contribution (DC). Under DC schemes, pension payments are derived from the total value of contributions to pension pots made by individuals and their employers, with the value of the fund determined by the performance of investments.

Annuities have often been used to provide a guaranteed income in retirement. However, the pension landscape changed dramatically following changes introduced in the 2014 Budget. These changes meant that those who could demonstrate that they had a guaranteed income of at least £20,000 per year did not have to annuitise. According to data from the Association of British Insurers, £2.4bn was invested in 40,900 annuities from the beginning of Q2 2016 to the end of Q3 2016. 23

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19 Ibid.
The UK insurance industry paid out an average of around £2,000 per person in the UK in 2016 in pension benefits. These claims were related to life insurance, accident and disability policies, and general insurance claims. For the general insurance sector, the largest insurance product coverage was motor insurance, with 20.2m households being covered in 2015/16. This was followed by contents (19.7m) and buildings insurance (16.6m). For long-term insurance, there were 5m households bought life assurance in that year, followed by personal pensions (2.2m) (Figure 7).

Figure 7: Number of household insurance products by type in millions

Source: Association of British Insurers

<table>
<thead>
<tr>
<th>Insurance Product</th>
<th>Coverage in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contents insurance</td>
<td>19.7</td>
</tr>
<tr>
<td>Motor insurance</td>
<td>20.2</td>
</tr>
<tr>
<td>Buildings insurance</td>
<td>16.6</td>
</tr>
<tr>
<td>Mortgage protection</td>
<td>3.3</td>
</tr>
<tr>
<td>Private medical insurance</td>
<td>1.7</td>
</tr>
<tr>
<td>Whole of life assurance</td>
<td>5.0</td>
</tr>
<tr>
<td>Personal pensions</td>
<td>2.2</td>
</tr>
<tr>
<td>Term life assurances</td>
<td>0.5</td>
</tr>
<tr>
<td>Income protection</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Making related professional services more accessible

Like the financial services sector, related professional services have also made increasing use of technology in recent years. Legal services, for example, is making greater use of artificial intelligence, which has the potential to lower costs over the medium to long term. Additionally, the internet facilitates the provision of very basic legal services at low cost, bringing such services within the reach of individuals who may not otherwise be able to afford them.
SUPPORTING BUSINESSES

Most businesses would not be able to operate without the financial services sector. It supports businesses in a myriad of ways, ranging from providing current accounts for day-to-day expenditures to insurance cover for assets to growth capital for investment.

The funds businesses need can come from a number of sources. The most common options for companies looking to raise money include bank finance, bonds, equities on stock markets and private equity. Other forms of finance include asset finance, business angel investment, insurance company and pension fund lending, crowdfunding and private placements. Provision of finance enables companies to invest in creating jobs, training and developing people, and developing their products and services.

Bank lending

The outstanding amount of loans made available by major banks to UK businesses totalled £465bn at the end of 2017. Of this total, 35.6% was lent to SMEs.26

The geographical distribution of SME borrowing is generally reflective of the locational spread and turnover of all businesses in the UK.

Equity and bond financing

- Shares: UK companies raised £27.2bn in issues of shares in 2017: £23.8bn in issuance of shares on the London Stock Exchange’s markets; and £3.4bn in international main markets (Figures 8 and 9).27

Figure 8: Issues of shares by UK companies, 2017

Source: London Stock Exchange


Figure 9: Equity issuance by UK businesses, £bn
Source: London Stock Exchange

- Leading small cap equity market: small caps from across the UK enjoy access to the largest share market for small companies in Europe, with 960 companies quoted on the AIM. In 2017, AIM companies raised £6.4bn through new and further issues of shares.²⁸
- Bond issuance: although UK companies have historically raised debt finance through the banking system rather than bond markets, this has started to change in recent years. London continues to be a major centre for issuance and trading of international bonds.

Figure 10: Number of retail bonds listed on the London Stock Exchange
Source: London Stock Exchange

Alternative finance
Finance for SMEs has been enhanced by state support schemes such as the Funding for Lending scheme (which launched in 2012 and ran through January 2018) and the Start-Up Loans scheme, operated by Start Up Loans, a subsidiary of the British Business Bank. Alternative finance has an important role to play in financing SMEs. According to research by the University of Cambridge and CME Group Foundation, the alternative finance market in the UK was estimated to be worth £4.6bn in 2016, up by 43% year on year.29 Although this figure includes peer-to-peer consumer lending and reward-based crowdfunding, among other models, more than 33,000 SMEs received around £3.3bn worth of funding from alternative finance providers in 2016, according to the University of Cambridge.30 The market is set to continue to expand rapidly, albeit from a very low base: in comparison, outstanding bank loans to SMEs exceeded £165bn.31 There are also a number of other promising opportunities in alternative finance to complement bank lending, such as the development of private placement markets, the re-opening of SME loan securitisation markets as a mechanism to increase (especially longer term) funding to SMEs, the establishment of an institutional market in untranche whole loan conduits, the encouragement of credit rating services for mid-market companies, and the provision of a credit information exchange for SMEs and mid-market companies.

The UK is a global leader in the FinTech sector. According to data from Innovate Finance, UK FinTech firms received $1.8bn investment from venture capital (VC) in 2017, up 153% on 2016. The amount of VC investment in the UK was the second largest in the world, just after the amount in the US.32

Primary destination for private equity
The UK private equity and venture capital sector manages assets totalling around £250bn.33 In 2016, UK private equity funds invested £7.1bn in 728 UK companies. Regionally, London continues to lead by amount invested, growing 10.7% in 2016 to £2.7bn (Figure 11). Other parts of the country have also experienced sizeable increases in investment. Investment in the West Midlands and the East of England, for example, increased more than three times and more than doubled to £1.2bn and £781m during the period 2015-2016 respectively. The South West and the North East also saw strong growth during the year.34

30 Ibid.
Investing in infrastructure

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 £56bn have been funded. The UK government aims to invest over £460bn up to 2020/21 and beyond in its National Infrastructure Plan, £240bn of which will be invested from 2017/18 to 2020/21. Over 45% of the £240bn will come from a diverse range of private investment sources.

Providing professional and supporting services

The UK has high quality professional and support services; it has the largest and most developed market in Europe for legal services, management consulting and accounting. For example, according to data from the Financial Reporting Council, there are over 350,000 members in seven main accountancy bodies in the UK and Republic of Ireland. These qualifications represent a global standard, as well as providing a training ground for the next generation of business leaders. ICAEW shows more than 80 companies in the largest 100 UK listings have at least one ICAEW chartered holder on their board.

KickStart Money is a project initiated in 2017 through the TISA Savings and Investment Project, whereby 20 investment firms have committed £1m over a three-year period to take financial education to nearly 18,000 primary school children. As of March 2018, 52 schools, 167 programmes and 4,771 young people have received delivery of the KickStart programme. For the programme’s second year, 88 new schools have been identified; these are concentrated within London, the home counties, Liverpool, Aberdeen and Edinburgh.


LIST OF SOURCES

Association of British Insurers
Bank of England
British Private Equity & Venture Capital Association
City of London Corporation
Financial Reporting Council
Financial Services Compensation Scheme
HM Revenue & Customs
HM Treasury
House of Commons
Infrastructure and Projects Authority
Institute of Chartered Accountants in England and Wales
Investment Association
London Stock Exchange
Office for National Statistics
The Pensions Regulator
TISA
UK Finance
University of Cambridge
World Bank