

# The UK as an International Financial Centre

**UK-China Economic and Financial Dialogue**

June 2019

TheCityUK







*30 St Mary Axe  
(the Gherkin)  
London*

## TheCityUK

### About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. In the UK, across Europe and internationally, we promote policies that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes over 10% of the UK's total economic output and employs 2.3 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 almost equivalent to all other net exporting industries combined.

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Department for  
International Trade

### About the UK's Department for International Trade

We are an international economic department, which aims to secure UK and global prosperity by promoting and financing international trade and investment, and championing free trade.

For international business, the UK's Department for International Trade is here to help. We have all the tools and advice you need to set up your business in the UK and start trading with the UK.

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# UK Financial Services Sector

## TRADE SURPLUS

**\$88bn**

*UK-based  
financial services*

**Around \$107bn**

*UK-based financial and related  
professional services*

## UK BANKING SECTOR ASSETS ARE THE LARGEST IN EUROPE

 UK: \$10.7trn

 France: \$10.4trn

 Germany: \$9.2trn

 Italy: \$4.3trn

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

 UK: \$88bn

 US: \$47bn

 Switzerland: \$23bn

**418 foreign  
companies**

*are listed on the LSE = 11.7% of  
the global total of foreign listed  
companies*

## THE UK IS THE LEADING FOREIGN EXCHANGE MARKET

**2x**

*Nearly twice as many US dollars are  
traded in the UK as in the US*

**2x**

*More than twice as many euros are  
traded in the UK as in the eurozone*

## OTC INTEREST-RATE DERIVATIVES TRADING WORLDWIDE

**39%**

 UK

**41%**

 US

## Mark E Tucker & John Glen MP

### Foreword

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A handwritten signature in black ink, appearing to read 'Mark E Tucker'.

**Mark E Tucker**

Board Chairman, TheCityUK  
Group Chairman, HSBC Holdings plc



A handwritten signature in black ink, appearing to read 'John P. Glen'.

**John Glen MP**

Economic Secretary to the Treasury

The UK is one of the world's leading international financial centres. Services make up 80% of the country's economy. Financial services generate a significant trade surplus: US\$88bn in 2017 (equivalent to £68bn). The UK also has the leading share of trading in many international financial activities, such as foreign exchange trading, cross-border bank lending and international insurance premium income.

The trading relationship between the Chinese and British economies has grown in importance over the past decade. Both imports and exports have shown strong growth, with trade in goods dominating the relationship. About 90% of trade between the two countries over the past decade has been in goods, with China the UK's fourth largest import source.

The UK and China have made real progress in recent years to strengthen trade in services, particularly in financial services. UK financial services exports to China totalled £350m in 2018, while imports amounted to £65m - equating to a trade surplus of £285m. But, despite this progress, China still accounts for only 0.4% of total UK financial services exports, indicating great potential for future growth.

Many of the elements critical to this growth are in place. London is now the world's largest Renminbi trading hub outside China. Alongside this, over the past few years a growing number of Chinese financial services companies have established operations in the UK, reflecting Britain's position as the leading recipient of Chinese FDI into Europe. These successes have been secured through close cooperation and partnership between the two governments, regulators and industries. We look forward to making further progress in this important relationship, and to using this in the years ahead to support greater trading flows to the benefit of both countries.



*Salford Quays  
Manchester*

## The UK as the World's Leading International Financial and Related Professional Services Centre

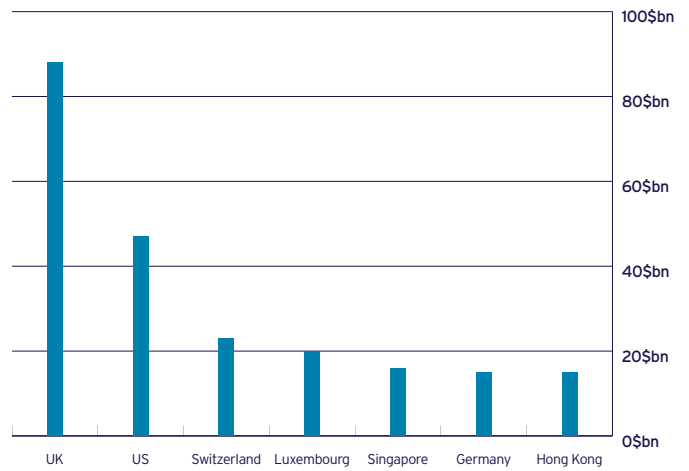
### *The world's leading net exporter of financial services*

The UK's trade surplus in financial and related professional services is estimated to be \$107bn (£83bn<sup>1</sup>).<sup>2</sup>The magnitude of exports relative to imports indicates that the industry is highly competitive globally.

The UK's financial services trade surplus of \$88bn (equivalent to £68bn) in 2017 was nearly the same as the combined surpluses of the next three leading countries (the US, Switzerland and Luxembourg).<sup>3</sup>

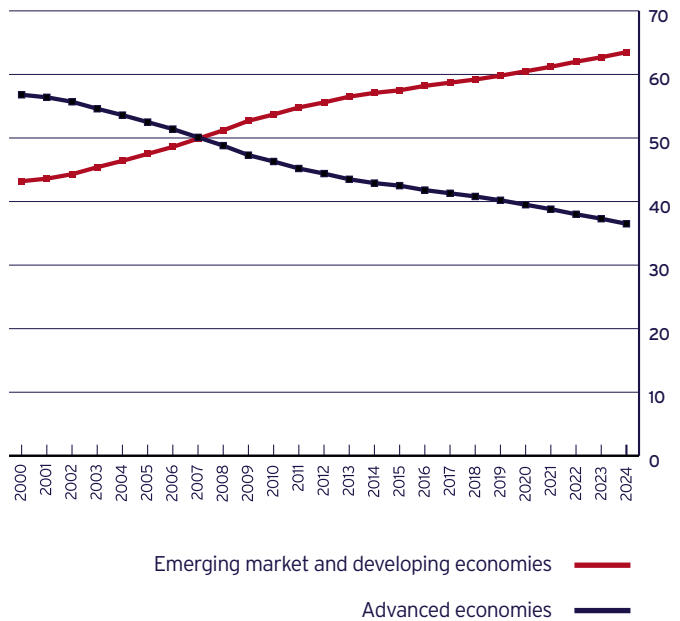
The UK has a strong record in managing financial and related professional business from developed economies, and is uniquely placed to support industrial development, infrastructure investment, poverty reduction and financial inclusion in developing economies. Whilst volume of trade is low by comparison to developed countries, there is significant potential for growth as developing and emerging economies take on greater importance in the global economy, and build more sophisticated financial systems across capital markets, pensions, insurance, FinTech and asset management.

**Chart:** Financial Services Net Exporters



Source: UNCTAD

**Chart:** Percentage of World GDP



Source: IMF

<sup>1</sup> All currency conversions in this report have been made using the average annual exchange rate for the relevant year.

<sup>2</sup> TheCityUK calculations based on Office for National Statistics, 'UK Balance of Payments - The Pink Book Time Series Dataset', (31 July 2018), available at: <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/pinkbook>

<sup>3</sup> UNCTAD, 'Data Centre', (August 2018), available at: <http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>





*The Shard,  
London*

## *Rankings of global financial centres*

By any of the measures used by established indices, such as Z/Yen's GFCI survey or PwC's annual 'Cities of Opportunity' report, London ranks first or second as an international financial services centre, with New York its only consistent rival.

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.

Factors underpinning London's status as an international financial and related professional services centre:

- a 'cluster effect' of a full ecosystem, including the co-location of finance, business, technology and government
- deep pools of capital and liquidity and strong risk management
- deep pools of highly skilled talent
- use of English law and language
- high-quality regulators, and a strong regulatory regime.

## UK-China Economic and Trade Relations



Trade in goods dominates the UK-China trade relationship, accounting for around 90% of all trade between the two countries over the past decade.

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During this period, UK exports to China increased from £7.6bn to £23.1bn and now account for 3.6% of UK exports.

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China is the UK's fourth-largest import source behind Germany, the US and Netherlands, accounting for 6.8% of UK goods and services imports in 2018 - up from 6% a decade earlier.

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UK financial services exports to China totalled £350m in 2018, while imports amounted to £65m. This means that the UK had a financial services trade surplus with China of £285m in 2018.

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China accounts for 0.4% of total UK financial services exports.

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The stock of financial services investment held by Chinese firms in the UK totalled £1.1bn at the end of 2017.

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UK companies held £3.7bn of financial services FDI assets in China in 2017.

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London is now the major global centre for offshore renminbi business. More than 30 Chinese financial firms have established operations in the UK over the past few years.

# International Financial Markets in the UK

## Banking

The UK maintains a globally leading share of a number of financial markets. For example, London is a centre for foreign banks, with around 250 foreign banks or branches in the city.<sup>4</sup>

UK banking sector assets totalled \$10.7trn (equivalent to £8trn) at the end of 2018, the fourth largest in the world and the largest in Europe, followed by France (\$10.4trn), Germany (\$9.2trn) and Italy (\$4.3trn).<sup>5</sup>

















The UK is the world's largest centre for cross-border banking, with 17% of the outstanding value of international bank lending at the end of 2018.<sup>6</sup>

**Table:** Largest banking centres' assets  
\$bn, end-2018

Banking Centre	Assets
 <b>China</b>	<b>23,100</b>
 <b>US</b>	<b>17,000</b>
 <b>Japan</b>	<b>11,500</b>
 <b>UK</b>	<b>10,700</b>
 <b>France</b>	<b>10,400</b>
 <b>Germany</b>	<b>9,200</b>
 <b>Italy</b>	<b>4,300</b>

Note: Data for China are 2016  
Source: Central Banks

**Table:** International bank borrowing and lending, % share Q4 2018

Banking Centre	Borrowing	Lending
 <b>United Kingdom</b>	<b>19</b>	<b>17</b>
 <b>Japan</b>	<b>5</b>	<b>13</b>
 <b>United States</b>	<b>13</b>	<b>9</b>
 <b>France</b>	<b>11</b>	<b>9</b>
 <b>Germany</b>	<b>6</b>	<b>7</b>
 <b>Hong Kong SAR</b>	<b>5</b>	<b>5</b>
 <b>China</b>	<b>5</b>	<b>4</b>
 <b>Netherlands</b>	<b>3</b>	<b>3</b>
 <b>Switzerland</b>	<b>3</b>	<b>3</b>
 <b>Singapore</b>	<b>3</b>	<b>3</b>
 <b>Canada</b>	<b>2</b>	<b>3</b>
 <b>Cayman Islands</b>	<b>2</b>	<b>2</b>
 <b>Luxembourg</b>	<b>2</b>	<b>2</b>
 <b>Spain</b>	<b>2</b>	<b>2</b>
 <b>Italy</b>	<b>2</b>	<b>2</b>
 <b>Others</b>	<b>18</b>	<b>16</b>

Source: Bank for International Settlements

<sup>4</sup> TheCityUK calculations based on Association of Foreign Banks, (August 2018), available at: <http://www.foreignbanks.org.uk/>

<sup>5</sup> TheCityUK calculations based on the European Central Bank, 'Statistical data warehouse', (06 May 2019), available at: <http://sdw.ecb.europa.eu/reports.do?node=1000003265>

<sup>6</sup> TheCityUK calculations based on Bank for International settlements, 'Cross-border positions, by location of reporting bank and sector of counterparty', (18 April 2019), available at: [https://www.bis.org/statistics/a2\\_1.pdf](https://www.bis.org/statistics/a2_1.pdf)

## Insurance

The UK insurance industry is the largest in Europe and fourth largest in the world.<sup>7</sup> It consists of insurance companies, the Lloyd’s market, intermediaries, and various specialist support professions and services.

The UK accounted for 5.8% of global and 19.2% of European insurance premiums in 2017.

The UK is the largest source of pension funds in Europe, with \$2.9trn (equivalent to £2.1trn) in assets under management.<sup>8</sup> The country was also the second largest source of insurance funds in Europe, with \$2.3trn (equivalent to £1.8trn) in assets under management.<sup>9</sup>

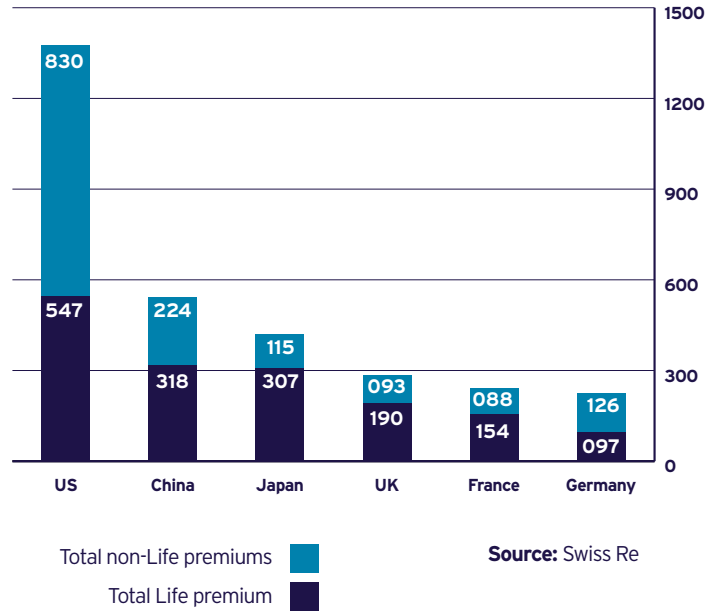
## Capital Markets

London’s importance as a centre for global equity trading is illustrated, for example, by the 418 foreign companies listed on the London Stock Exchange (LSE) at the end of 2018, accounting for 11.7% of total global foreign listings.

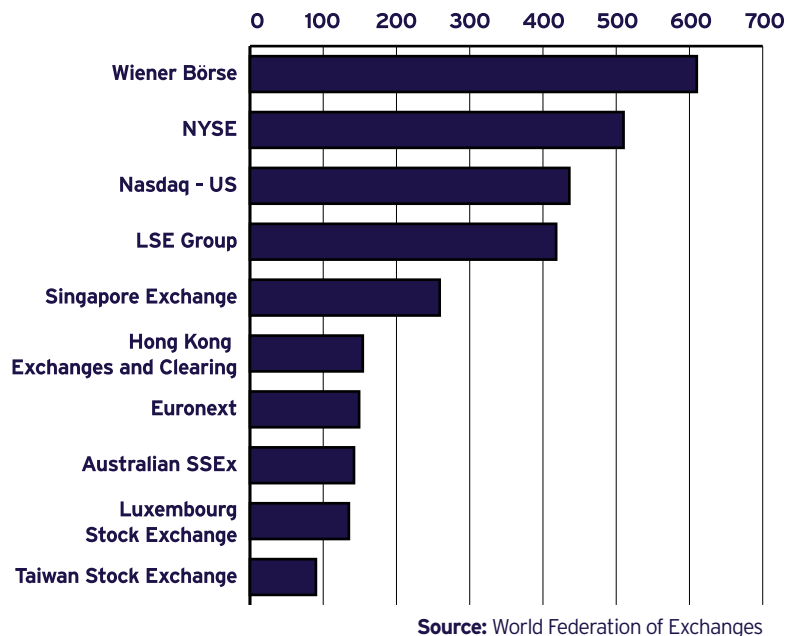
The UK has one of the highest equity market capitalisation in relation to GDP of the largest countries - 129% at the end of 2018.<sup>10</sup>

The UK’s outstanding value of international bonds was the largest in the world in the third quarter of 2018, totalling around \$3.2trn (equivalent to £2.4trn), equivalent to 13% of the global total.<sup>11</sup> Eurobonds accounted for 64% of this.<sup>12</sup>

**Chart:** Largest Insurance Markets, \$bn, 2017



**Chart:** Number of Foreign Companies Listed



<sup>7</sup> Swiss Re Institute, ‘SIGMA No 3/2018: World Insurance in 2017: Solid, But Mature Life Markets Weigh on Growth’, (05 July 2018), p.40-44, available at: [http://www.swissre.com/library/publication-sigma/sigma\\_3\\_2018\\_en.html](http://www.swissre.com/library/publication-sigma/sigma_3_2018_en.html)

<sup>8</sup> Thinking Ahead Institute and Willis Towers Watson, ‘Global Pension Assets Study 2019’, (May 2019), p.11

<sup>9</sup> Insurance Europe, ‘Insurance Data’, available at: <https://www.insuranceeurope.eu/insurancedata>

<sup>10</sup> TheCityUK calculations based on World Federation of Exchanges, ‘Monthly Reports’, (May 2019), available at: <https://www.world-exchanges.org/home/index.php/statistics/monthly-reports>

<sup>11</sup> TheCityUK calculations based on Bank for International Settlements, ‘Summary of debt securities outstanding’, (5 March 2019), available at: <https://www.bis.org/statistics/c1.pdf>

<sup>12</sup> TheCityUK calculations based on Bank for International Settlements, ‘United Kingdom: Debt securities issues and amounts outstanding’, (5 May 2019), available at: <https://www.bis.org/statistics/c3-GB.pdf>

## 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 (conventional plus alternative) totalled £9.1trn in 2017. Some of the key indicators of the UK's international position include:

- **Pension fund assets:** UK's pension assets accounted for 7.1% of global pension assets in 2018, which was well ahead of other European countries.<sup>13</sup>
- **Mutual funds:** around \$1.5trn (£1.1trn) is managed by UK mutual funds.<sup>14</sup>
- **Insurance funds:** the UK insurance industry has the fourth largest-funds under management after the US, Japan and France.

London is the world's second-largest centre for hedge fund management, after New York. The UK had \$414bn (£320bn) in assets under management (14% of global assets) in the hedge fund sector in 2017 – an increase of nearly 80% over the past five years.<sup>15</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 audit.

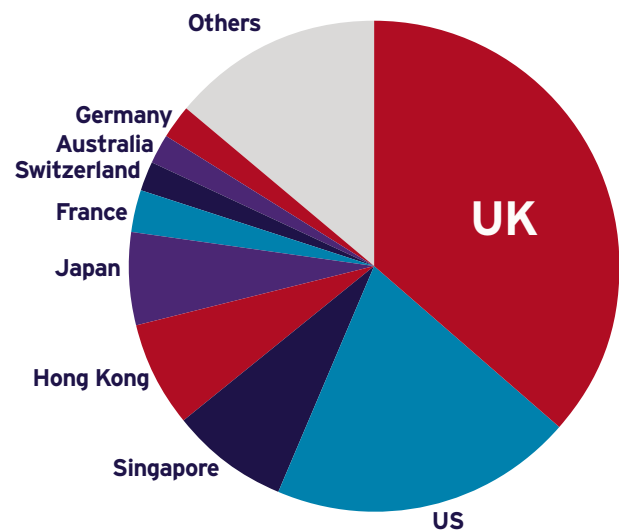
The UK private equity market is the most developed in the world outside the US. UK private equity funds invested \$33.6bn (equivalent to £26.1bn), the largest amount in Europe, in 2017. London is the largest European centre for the management of private equity investments and funds. Over the past decade, the UK private equity industry has invested around \$217bn (£168bn) in nearly 10,500 firms worldwide.<sup>16</sup>

## Trading

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%).

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>17</sup>

**Chart:** Foreign Exchange Trading, % Share



Source: Bank for International Settlements

The UK is a leading derivatives centre, with a 39% share of trading OTC interest-rate derivatives in 2016. The US is the only other major location, with 41% of trading.<sup>18</sup>

<sup>13</sup> Thinking Ahead Institute and Willis Towers Watson, 'Global Pension Assets Study 2019', (May 2019), p.11

<sup>14</sup> TheCityUK estimate based on Investment Company Institute, 'Supplement: Worldwide Public Table, Fourth Quarter 2018, Data in US Dollar (xls)', (27 March 2019), available at: <https://www.ici.org/research/stats/worldwide>

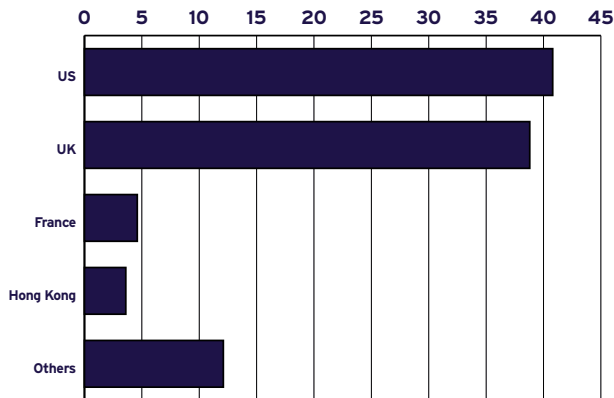
<sup>15</sup> TheCityUK calculations based on The Investment Association, 'Asset Management in the UK 2017-2018, The Investment Association Annual Survey', (September 2018), p.17, available at: <https://www.theinvestmentassociation.org/assets/files/research/2018/20180913-fullsummary.pdf>

<sup>16</sup> TheCityUK calculations based on British Private Equity & Venture Capital Association, 'BVCA Report on Investment Activity 2017', (August 2018), p.19, available at: <https://www.bvca.co.uk/Portals/0/Documents/Research/Industry%20Activity/BVCA-RIA-2017.pdf?ver=2018-07-05-190000-180&timestamp=1530813602675>

<sup>17</sup> TheCityUK calculations based on Bank for International Settlements, '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/rpfxfl6fxt.pdf>

<sup>18</sup> TheCityUK calculations based on Bank for International Settlements, 'Turnover of OTC single currency interest rate derivatives, by country: Table D12.2', (3 May 2018), available at: [https://www.bis.org/statistics/d12\\_2.pdf](https://www.bis.org/statistics/d12_2.pdf)

**Chart:** Location of OTC Interest Rate Derivatives, Daily Average Turnover % of total



**Source:** TheCityUK calculations based on Bank for International Settlements

Major derivatives exchanges located in London are: NYSE Liffe, Europe’s biggest exchange for ‘soft commodities’; London Metal Exchange, a 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.



*Royal Mile  
Edinburgh*

### Green Finance

The LSE has been a prominent host to green bonds. There were 27 new green bonds listed on the LSE in 2017, which raised \$10.1bn (equivalent to £7.8bn)<sup>19</sup>. In June 2018 the LSE saw its largest-ever green bond listing when the London branch of Industrial and Commercial Bank of China listed a dual-currency (US dollar and euro) green bond worth a total of \$1.6bn. The LSE was also host to 16 renewable funds with a combined value of more than \$7bn.<sup>20</sup>



*More than  
**\$25bn**  
has been  
raised  
through green  
bonds on the  
London Stock  
Exchange*

### FinTech

The UK is among the top three countries for total capital invested in digital tech companies, behind only the US and China. Only the US has a higher number of deals, suggesting that the UK does more small deals than China, reflecting the vibrancy of the nation’s start-ups and scale-up landscape. Total investment and numbers of deals in digital tech companies have risen significantly since 2012, from £984m spread over 870 deals in 2012 to £3.3bn over 2,645 deals in 2016.<sup>21</sup>

This investment comes hand in hand with support from people who have experienced the challenges of accelerated growth, and understand how to help a company develop from initial proof of concept to mass market growth. International investment acts as a catalyst for global connections - bringing together companies and investors from across the world. This stimulates worldwide network building, which in turn contributes to the emergence of ground-breaking global companies.<sup>22</sup>

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.

<sup>19</sup> TheCityUK and Imperial College Business School, ‘Understanding green bonds’, (May 2018), p.15, available at: <https://www.thecityuk.com/assets/2018/Reports-PDF/bf2095d362/Understanding-Green-Bonds.pdf>

<sup>20</sup> Green Finance Initiative, ‘Facts & Figures’, available at: <http://greenfinanceinitiative.org/facts-figures/>

<sup>21</sup> Department for International Trade, HM Treasury and Innovate Finance, ‘UK FinTech: State of the nation’ (April 2019), p.15, available at: <https://www.innovatefinance.com/reports/uk-fintech-state-of-the-nation-report/>

<sup>22</sup> Ibid.



*Millennium Bridge  
London*

Half of the top European venture capital deals in the FinTech sector in 2018 took place in the UK, suggesting the UK is a leader in the sector. Examples include Monzo and BitFury, which raised \$110m and \$80m respectively in the last quarter of 2018.<sup>23</sup>

There are 1,600 FinTech firms in the UK, according to data from the Department for International Trade, HM Treasury and Innovate Finance. Estimates suggest this will more than double by 2030. Data from Department for International Trade,



*UK received more than*

**\$16bn**

*in FinTech investment  
in the first half of 2018*

*(28% of the global total)*

HM Treasury and Innovate Finance show that 76,500 people work in FinTech UK-wide; this number is set to grow to 105,500 by 2030.<sup>24</sup>

According to research from KPMG, the UK received more than \$16bn in FinTech investment in the first half of 2018; this represented 28% of total global investment in FinTech companies worth \$57.9bn. This outpaced FinTech investment in the US, which totalled \$14.2bn in that period. Accenture states that FinTech financing in the UK through venture capital investment quadrupled between 2016 and 2017 to \$3.4bn (equivalent to £2.6bn) in 2017. In 2018, \$3.3bn of venture capital and private equity investments were in UK FinTech.<sup>25</sup>

## Legal Services

The UK accounts for 6.5% of the global legal services market, which totalled approximately \$849bn (equivalent to £659bn) in 2017.<sup>26</sup> It is the dominant player in European legal services and second only to the US globally. The UK allows virtually unrestricted market access for foreign law firms, and more than 200 foreign law firms from around 40 jurisdictions. In 2016 the UK had 281,866 lawyers and 32,048 law firms.

The popularity of English law helps drive the UK's commanding position in legal services. Some 27% of the world's 320 legal jurisdictions, and 30% of the world's population, are governed by systems based on English common law.

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.

<sup>23</sup> KPMG, 'The pulse of FinTech 2018: Biannual global analysis of investment in FinTech', (13 February 2019), p.44, available at: <https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/02/the-pulse-of-fintech-2018.pdf>

<sup>24</sup> Department for International Trade, HM Treasury and Innovate Finance, 'UK FinTech: State of the nation' (April 2019), p.12-13; available at: <https://www.innovatefinance.com/reports/uk-fintech-state-of-the-nation-report/>

<sup>25</sup> Ibid.

<sup>26</sup> The Law Society Gazette, 'UK Legal Services Market to Get "Brexit Boost"', (26 March 2018), available at: <https://www.lawgazette.co.uk/law/uk-legal-services-market-to-get-brexit-boost-/5065407.article>

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## Sources of Information

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- Accenture
- Association of Foreign Banks
- Bank for International Settlements
- Bank of England
- British Private Equity & Venture Capital Association
- European Central Bank
- Innovate Finance
- Insurance Europe
- International Monetary Fund
- Investment Association Investment Company Institute
- KPMG
- Law Society of England and Wales
- Office for National Statistics
- Swiss Re Institute
- TheCityUK
- Thinking Ahead Institute
- UNCTAD
- Willis Towers Watson
- World Federation of Exchanges







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