

A VISION FOR A TRANSFORMED, WORLD-LEADING INDUSTRY:

UK-based financial and related professional services



About TheCityUK

TheCityUK is the industry body for UK-based financial and related professional services, producing evidence of their importance to the wider economy. In the UK, across Europe and globally, we seek to influence policy to drive competitiveness, create jobs and ensure long-term economic growth. The industry accounts for nearly 11 per cent of total UK gross value added and employs over 2.2 million people right across the country. It is the largest tax payer, the biggest exporting industry and generates a trade surplus greater than all other net exporting industries combined.

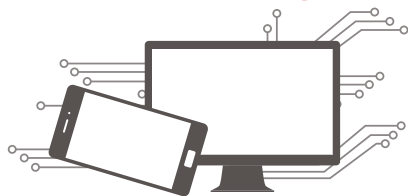
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VISION FOR A TRANSFORMED INDUSTRY

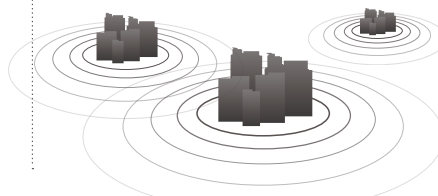
Highly digitised,
innovative and
customer centric



London to remain
a world leading
financial global
centre



Enhanced importance
of national and
regional centres



ECONOMIC BENEFITS IN 2025 *

Industry
GVA
up by



9%

UK economy
would be

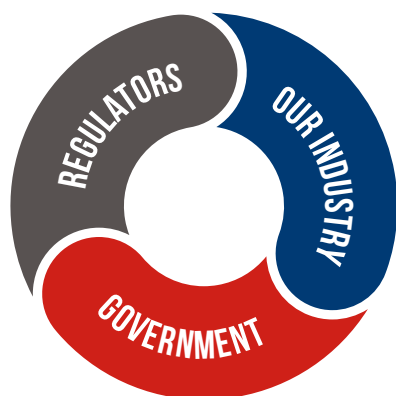


£43BN

larger

**The impact figures are based on implementing the vision in comparison to the 'as is' scenario*

HOW TO ACHIEVE THIS TRANSFORMATION



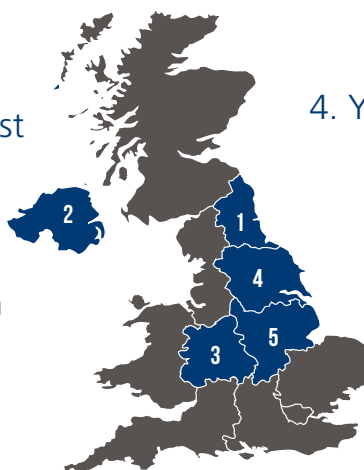
TOP 5 – FASTEST INDUSTRY GROWTH IN UK BY 2025

1. North East

30%

2. Northern Ireland

25%



3. West
midlands

23%

4. Yorkshire and
The Humber

23%

5. East
Midlands

19%

OUR INDUSTRY HELPS ...



... BUSINESSES TO

- ✓ Raise capital
- ✓ Create wealth
- ✓ Manage risk & liquidity
- ✓ Manage data sharing



... PEOPLE TO

- ✓ Save
- ✓ Buy a home
- ✓ Insure their belongings
- ✓ Plan for retirement

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FOREWORD

Our industry has remained a world leader by facing up to big challenges. The rise of the US, the end of Empire, Big Bang and the birth of the euro all posed a threat to the UK's status as the world's leading financial centre. But by being willing to transform itself, the sector together with the lawyers, accountants and consultants, which form a vital part of the industry's ecosystem, has continued to thrive. The transformation happened because the best talent from home and abroad devised the best products and services to offer to new markets and to new customers. They have helped people to buy a home of their own, to invest in their business, provide security in old age and to manage risk, generating economic security and growth.

Once again, we face great challenges: the emergence of new economic superpowers, revolutionary new technology, the imperative to rebuild trust, the changing needs of today's families and businesses, and the potential for disruption to our trading links to Europe. If we are to remain the world's leading financial centre – which was the challenge that we set out in our report last year 'UK financial and related professional services: meeting the challenges and delivering opportunities' – then the industry must renew itself again.

As our interviews with its leaders demonstrate, the industry is ready to transform itself in order to develop new markets, to rebuild its relationship with its customers, to embrace the technological revolution and to remain Europe's global financial centre. By doing so, it will create opportunities across the UK – a network of strong financial centres including London, regional and national locations.

This report sets out a roadmap for change. Its recommendations are bold. They set the agenda for the industry and a work plan for TheCityUK. But the industry cannot do this by itself. As other financial centres have shown, the industry, government and regulators need to work together to maximise the benefit for the country as a whole.

By following our roadmap, we will secure the future for the industry, its customers and the UK economy.

This report has been made possible by the time and insight that we have received from across the industry and beyond. I would like to thank everyone who contributed.

I would also like to thank Andrew Kail, Alan Gemes and the team at PwC for their work in producing this contribution to such a vital debate.

Mark Hoban

TheCityUK board member and project chair



EXECUTIVE SUMMARY

The UK is at a unique juncture, with an opportunity to shape the future of the financial and related professional services industry

The world is changing at an unprecedented rate. New technologies are transforming the way we live, demographic trends are altering the shape of communities and the global balance of economic power is shifting towards faster growing markets. The industry must continually adapt and change to remain relevant.

Brexit has provided a catalyst for the UK to reconsider its future role and competitive positioning, with potential to recalibrate the focus of its trade and investment with the rest of the world. This takes place against a backdrop of increased global competition from established and emerging financial centres.

The UK has long been recognised as the leading international financial centre and, over time, has built up a set of distinctive strengths. The industry is fundamentally important to the UK, facilitating people's everyday lives and providing services that keep businesses working. It is a significant provider of jobs and the largest contributor of taxation for the country. It is the most internationally competitive industry in the UK, and provides the greatest trade surplus of any exporting industry.

To maintain its leading position, the industry needs to respond to global trends and changes in the competitive landscape. Despite its strong position, the industry faces challenges which need to be addressed. There are a number of gaps in the provision of services. There is a risk of reduced access to EU markets, the cost of capital needs to remain competitive and the industry remains London-centric. There are issues accessing the best talent, FinTech funding gaps need to be addressed and the industry must regain the trust of both customers and society.

A 2025 vision for the UK: a transformed, world-leading industry

TheCityUK and PwC's Strategy& have developed a vision for the future of the industry, drawing on extensive engagement with leaders across the industry and a rigorous fact-based assessment. By 2025:

- 1) The industry will have transformed itself to be highly digitised, innovative and customer-centric. It should be a leader in cyber security, using data in a secure and sophisticated way. This will be alongside new technologies, to drive forward significant improvements in the way services are delivered. Firms should be consistently and relentlessly do what is right for their customers.
- 2) London will still be one of the most important and attractive international centres for financial services and global business, retaining the full ecosystem of financial and related professional services. It will continue to play an important domestic role and be a leading FinTech centre that keeps the UK at the forefront of financial innovation.
- 3) Regional and national financial centres will have become more important within the UK industry. There must be a strong supply of local talent with the relevant skills, competitive costs and high productivity. Banking, insurance and asset management centres outside of London will continue to develop, hosting more headquarters of major companies, while other regional and national hubs will focus on enhancing specialist roles which serve both UK and global markets.

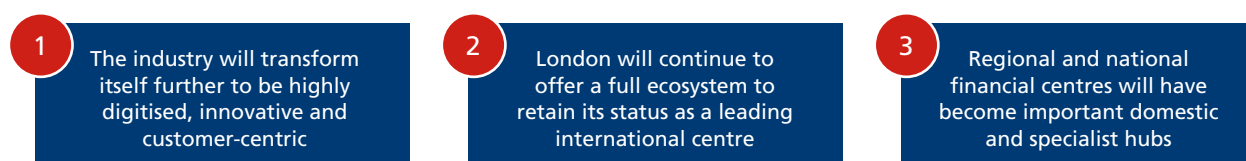
Implementing the strategy will require effective collaboration from industry, government and regulators

A set of recommendations has been developed that highlight how the important elements of the vision can be achieved. These recommendations include specific, detailed actions that should be pursued, both in the short term as well as in relation to the longer term. These recommendations should inform and align with the UK's Industrial Strategy, on which the government is currently consulting.

Figure 1: The 2025 vision for the UK: a transformed, world-leading industry

Source: TheCityUK, PwC's Strategy& analysis

The 2025 strategic vision



Key attributes



The recommendations will require delivery by three stakeholder groups – industry, government and regulators. These stakeholders need to collaborate for the industry to achieve its full potential. As a government sponsor for the industry, HM Treasury should convene regular discussions between different government departments and the industry, with independent involvement from regulators, to align on actions to enhance the competitiveness of the industry.

The **industry** should focus on rebuilding trust, embedding more ethical and customer-centric behaviours and cultural norms. Firms should embrace innovation and accelerate digitisation to benefit customers, developing expertise in transformative technologies. The industry should create new products that address unmet societal needs, and develop cyber resilience capabilities to protect the data and digital assets of both customers and firms. The industry should attract the best talent from home and abroad, forging stronger partnerships with academic institutions

and making better use of apprenticeships and agile learning programmes. The industry should collaborate with other stakeholders to promote the UK abroad and enhance partnerships with developed emerging and niche markets.

Government departments should collaborate to maintain and enhance an effective business environment. This should include through changes to the visa system to reflect changing skills requirements; enabling FinTech funding options; prioritising investment in physical and digital infrastructure; and simplification of the tax regime to support stability and international attractiveness. National, regional and local leaders should define the positioning of regional financial centres, planning skills and infrastructure requirements and encourage local governments and firms to work together on agreed initiatives.

Finally, industry **regulators** should take a lead role in building an open global financial system. They should embed a strong, proportionate and internationally attractive regime, applying judgement-based decision making. Processes should be put in place to ensure that regulation remain fit-for-purpose and that compliance is straightforward, without compromising the rigour and strength of enforcement. Regulation should support innovation, enabling the industry to develop new products and to allow for it to easily adopt new digital solutions.

This will deliver clear economic and social benefit

A coherent response will be required from the industry, government and regulators to make a reality out of the recommendations identified in this work and to deliver a vision consistent with and complementary to the UK's Industrial Strategy on which the government is currently consulting.

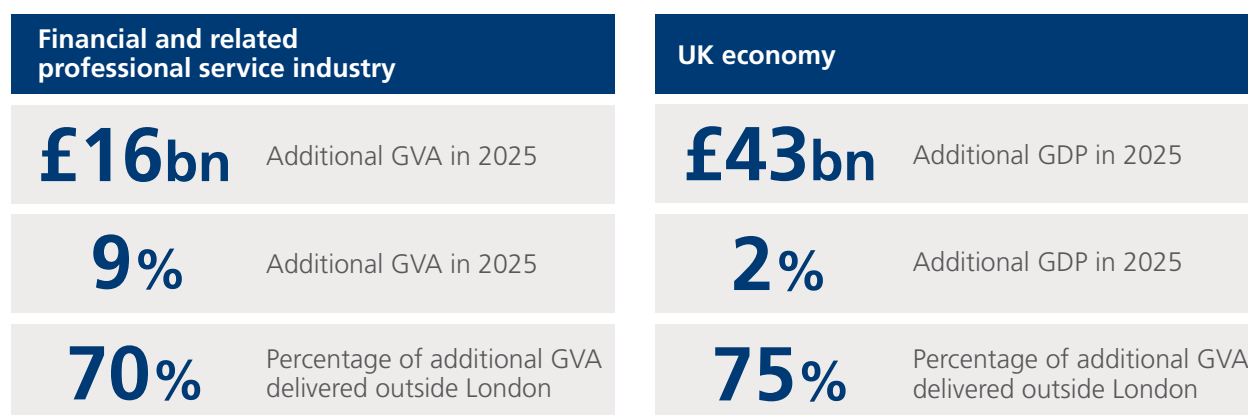
Delivering the vision will place digital technologies at the heart of the industry, driving innovation and transformational change for customers. Enhancing and refocusing trade and investment with developed, emerging and niche markets will generate more jobs and wealth for the UK. Firms will be more efficient and more sophisticated products will address customer needs and societal challenges.

Successful delivery of the vision will lead to an increase in innovation, export competitiveness and efficiency for the industry and the UK. In 2025, the strategy is expected to deliver an increase in the industry gross value added (GVA), enabling an increase in GDP for the UK as a whole with around three-quarters of the additional benefits delivered outside London.

The benefits to the UK of pursuing the strategy are significant. Action is needed now and by all parties, to deliver a transformed, world-leading industry that drives the country's future success and prosperity.

Figure 2: The additional economic benefit in 2025 of delivering the strategy against the "as is" scenario

Source: TheCityUK, PwC's Strategy& analysis



AN IMPORTANT INDUSTRY THAT IS READY TO CHANGE

An objective assessment of UK-based financial and related professional services underscores the critical role that the industry plays in supporting people, businesses and the UK economy as a whole. It also reveals the important challenges and opportunities that the industry will need to address, alongside adapting to a rapidly changing world – with more intense levels of global competition

The industry facilitates people's everyday lives

The industry provides essential financial products and services to almost every individual in the UK, enabling them to manage their everyday lives and finances.

It enables payments, allows people to borrow and access credit and helps individuals and families protect and grow their savings and investments.

The insurance sector provides individuals with risk protection against unforeseen events and helps them manage the risks they face in their daily lives. In 2015, the UK insurance industry paid out £2,400, on average, per person in pension benefits, claims related to life insurance, accident and disability policies and general insurance claims.¹

Increasingly, the industry is embracing digital technologies, with developments such as mobile banking and contactless payments making life easier for consumers.

The industry provides finance and services that keep business working

The industry supports businesses of all sizes in a myriad of ways. Small and medium-sized enterprises rely on current accounts for day-to-day expenditure and insurance cover for assets, while larger corporates are more likely to seek growth capital for investment and support to boost cross-border trade.

The industry funds businesses in various ways, including bank finance, capital markets and private equity. This enables companies to invest in creating jobs, training and developing people, and delivering products and services.

Related professional services help to build trust and market transparency by providing legal, advisory, assurance, ratings and diligence services. The provision of a reliable market infrastructure ensures a seamless flow of capital, while the provision of timely, accurate data and information supports better decision making by businesses.

The legal profession provides companies with critical protection of their rights and property, creating stability and certainty that enables them to operate more effectively.

Figure 3: Critical services provided by the industry to households and businesses

Source: TheCityUK, PwC's Strategy& analysis

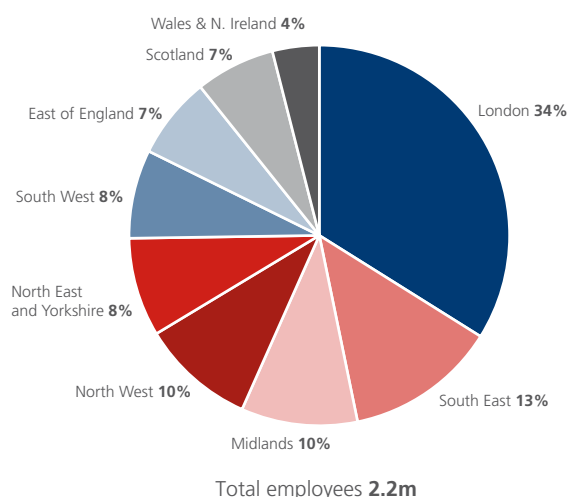


The industry supports jobs and growth across the country and is the UK's most internationally competitive sector

Over 2.2 million people are employed in financial and related professional services across the UK – two-thirds of them work outside London.²

Figure 4: UK-based financial and related professional services employment by region/nation

Source: TheCityUK 'Key facts about the UK based-financial and related professional services' 2017



The industry contributes a big share of tax revenue compared to its GVA and employment. In 2015/16, the UK financial services generated £71bn in tax revenue, this constituted 11.5% of the UK's total – higher than any other sector.³

Financial services and insurance is the best performing UK industry in terms of revealed comparative advantage – a measure of the strength of net trade flows in goods or services against other countries. In 2015, UK-based financial and related professional services generated a trade surplus of \$110bn. This was more than all other net exporting industries combined.⁴

Figure 5: Employment, GVA and tax contribution as a proportion of the UK total, 2015

Source: TheCityUK 'Key facts about the UK based-financial and related professional services' 2017

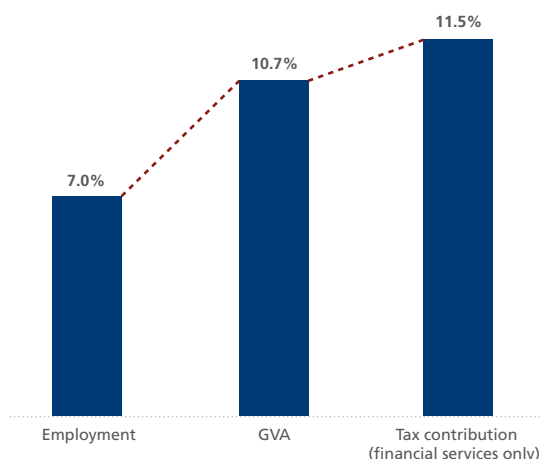
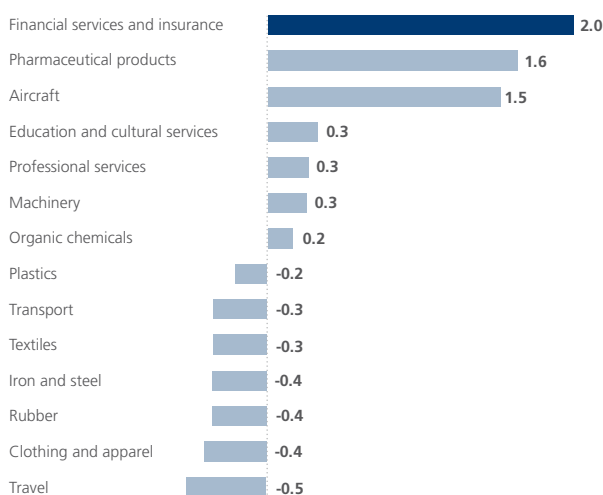


Figure 6: UK's revealed comparative advantage by industry, 2015

Source: PwC's Strategy& analysis of ONS data



Despite its strengths, the industry recognises the need to address a number of specific challenges

Serving domestic needs: While the industry plays a vital role in supporting individuals and businesses, there are a number of existing and emerging gaps in the provision of services (e.g. advice, long-term care funding). A shift is needed from the protection of physical assets to protecting digital assets as well.

Competing internationally: Although the UK is a leading international financial centre with a full ecosystem of financial and related professional services, it needs to respond to the threat of reduced access to EU markets. It also needs to improve its trade and investment links with other developed, emerging and niche markets.

Delivering economic value: The industry generates significant employment, tax revenues and GVA, and has the largest trade surplus globally. However, it needs to better utilise and develop its domestic expertise in both regional and national centres to rebalance the London-centric distribution of value, jobs and opportunity created by the industry.

Accessing the best talent: The UK currently attracts leading domestic and global financial and professional talent, but is declining in appeal to a younger more diverse workforce. It will need to support the development of domestic digital skills, requiring closer alignment with educational institutions and better use of apprenticeships.

Innovating with technology: The UK has a globally leading FinTech ecosystem with an effective clustering of talent, capital, regulators and clients. However there are funding gaps across the lifecycle and a need to further invest in cyber security, while developing and adopting transformative enabling technologies.

Rebuilding trust: While the industry has taken steps to rebuild trust, it has a poor reputation relative to other industries and countries, and still has a way to go to fully earn the trust of customers.

The UK needs a new vision for the industry

The UK needs a vision of how the industry will overcome these challenges to remain successful in the future. This should factor in issues including the industry's immediate business environment, major global trends and a more intense competitive landscape.

Following extensive engagement with the industry, TheCityUK and PwC's Strategy& have developed a vision for the future of UK-based financial and related professional services in 2025.

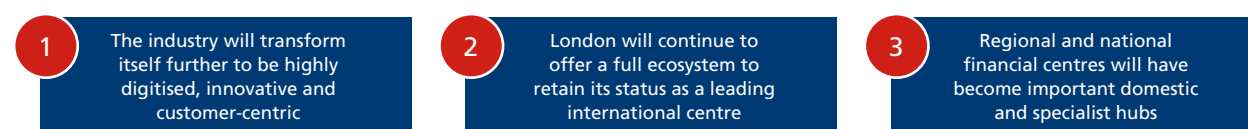
This vision builds on previous work by TheCityUK (in particular the August 2016 publication '*Meeting the Challenges and Delivering the Opportunities*') and is consistent with and complementary to the UK's Industrial Strategy on which the government is currently consulting.

A VISION FOR A TRANSFORMED, WORLD-LEADING INDUSTRY

The industry will have transformed itself to be highly digitised, innovative and customer-centric. London will offer a full financial ecosystem and retain its status as a leading international centre. Regional and national financial centres will serve domestic and global markets, including in specialist roles

Figure 7: The 2025 vision for UK-based financial and related professional services

Source: TheCityUK, PwC's Strategy& analysis



A 2025 vision for financial and related professional services

1. The industry will transform itself further to be highly digitised, innovative and customer-centric

By 2025, the industry should have fully embraced digital challenges and be constantly innovating, using leading-edge technologies to shape the way services are delivered. This will mean providing relevant information and making decisions in real time, independent of location. Services should be delivered in a way that is seamlessly integrated with everyday work and leisure activities. Organisations should use technology to collaborate in dynamic ways that are invisible to end-users and consumers. Data should be collected and analysed to develop highly sophisticated and value-adding offerings and advice, while cyber security and protection of data and identity will be paramount.

Faced with higher customer expectations and increasing competition from new sources, firms will need to go beyond superficial actions to truly embed customer-centricity. They should develop products and advice that truly meet customers' needs and reflect their ideas and preferences – they should be simple, and easy to understand and compare. Firms should be transparent about risks and benefits, and price propositions fairly. They should encourage and enable informed choice through the lifecycle and across distribution channels. Furthermore, they should consistently help customers to select the solution which will be most beneficial for them.

The industry needs to earn high levels of trust by deliberately and transparently balancing customer

and societal needs with shareholder returns, and by consistently behaving in an ethical way.

2. London will continue to offer a full ecosystem and retain its status as a leading international centre

In 2025, London should still be a leading international centre for capital markets, with a full ecosystem of financial and related professional services, having preserved key parts of the cluster and critical linkages. It should continue to provide international and domestic firms with a highly competitive cost of capital and be home to leading global asset managers. London can remain the preferred venue for foreign exchange trading and a world leader in a range of over the counter (OTC) trading products. As part of its full financial ecosystem, London should offer leading exchanges, clearing and dispute resolution and legal services. It should be a global leader in specialist commercial insurance.

At the same time, London should ensure that it is the preferred global financial marketplace for international business. Strong trade and investment links need to be strengthened and sustained with developed, emerging and niche markets. It must build on its strengths in attracting multi-national corporations and supporting cross-border activity. London should support the internationalisation of emerging market currencies and be a globally competitive market for emerging market debt and equity.

London should be the main integrating hub for activity in the domestic economy and support – and be supported by – strengthened regional and national financial centres. It should also be a global FinTech centre, positioning the UK

at the forefront of financial innovation. The FinTech sector can help drive the financial industry's evolution, enabling transformational change through technology.

3. Regional and national financial centres will have become important domestic and specialist hubs

The regional and national financial centres should become more prominent within the UK industry, specialising to serve domestic and global markets. Domestic banking and insurance centres should be prominent, hosting major company headquarters (e.g. Birmingham, Manchester, and Leeds). The increasing attractiveness of the UK workforce's cost and productivity proposition will continue to drive further re-shoring of financial activities and growth in a number of back-office hubs (e.g. Belfast, Bournemouth and Norwich). Specialist centres should emerge and develop further in traditional financial sectors (e.g. Edinburgh for asset and wealth management), as well as in newer digital areas (e.g. cyber security).

Regional and national centre activity should be discussed between government, the industry, local authorities and educational institutions. By adopting a more coherent

and focused approach, the industry can generate greater prosperity, more jobs and larger multiplier effects, such as increased demand for local services in other industries.

Figure 9: National and regional centres

Source: PwC's Strategy& analysis; UKTI centre of excellence report; TheCityUK meeting the challenges and delivering opportunities report

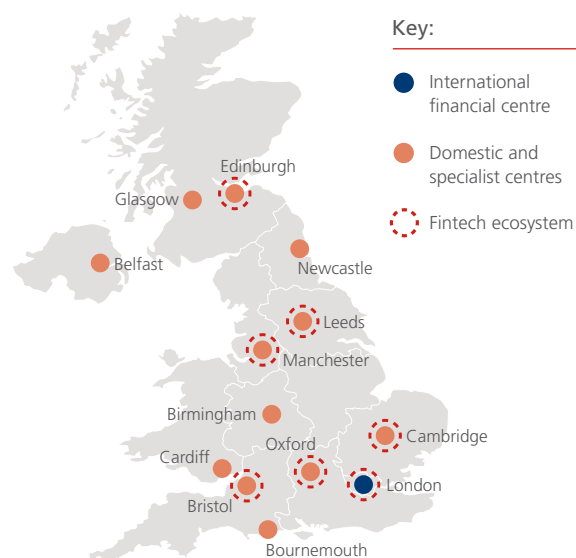


Figure 8: UK's financial and related professional services ecosystem

Source: PwC's Strategy& analysis

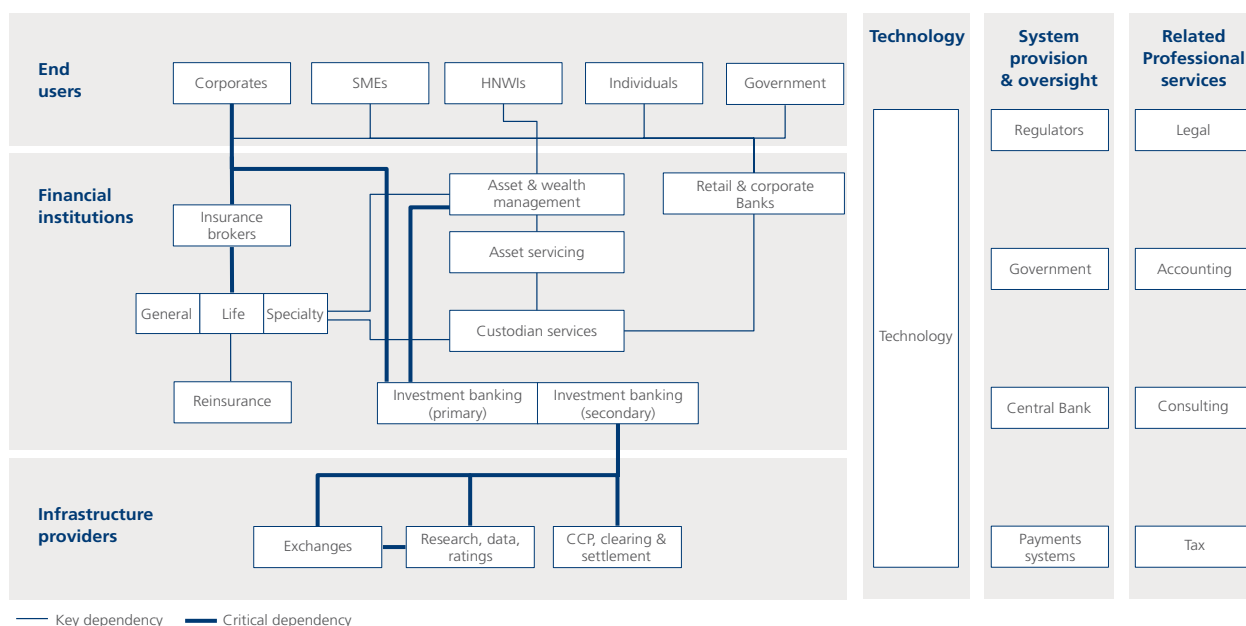


Figure 10: Key attributes of the 2025 vision

Source: PwC's Strategy& analysis



Key attributes of the 2025 vision

Strategic partnership between government, the industry and regulators

There should be effective collaboration between different government departments, the industry and regulators in order to agree on priorities and actions. A joint body will need to be instituted to meet regularly, led by HM Treasury and with representation from multiple government departments (e.g. the Home Office, the Department for International Trade (DIT), the Foreign & Commonwealth Office (FCO), the Department for Business, the Energy and Industrial Strategy (BEIS), the Department for Work & Pensions (DWP), Ministry of Justice (MOJ) and the industry. Government should facilitate this discussion with the industry, with regulators observing.

Together, a coherent strategy for the industry that supports national objectives and delivers positive customer outcomes should be shaped and agreed. All key industry stakeholders should work together in a coordinated and mutually supportive way to drive success for the UK and its financial and related professional services industry.

A trusted industry doing what is right for customers and clients

The industry must focus on doing what is right for clients while earning reasonable shareholder returns. All parts of the industry should consistently demonstrate ethical behaviour that sits at the heart of decision-making. The industry and individual firms must embed a culture that incentivises the right behaviours, with greater clarity and consistency on appropriate actions and consequences. The industry should earn the trust of customers and society through its actions and impact, demonstrably balancing customer needs and welfare, with shareholder returns.

Products and services should address key societal needs

The industry should provide customer-centric products and services that help address important societal needs. At the core of this is the provision of day-to-day financial services – such as basic payments, lending and borrowing – in a way that is secure, user-friendly, fast and cheap. Financial exclusion must be minimised by providing financial products that are easy to access, understand and use, while customers will be offered a range of financial advice

options from experts and fellow customers. New products and services should be provided to support an aging population and protect vulnerable customers.

The industry must evolve to provide customers with services to protect their digital identities and data. The industry should create sophisticated products and efficient markets that channel investment to address important societal challenges. For example, providing the preferred global marketplace for infrastructure investment (for capital raising, structuring investments, legal advice and expertise, leading products); or building a global marketplace for green finance to address climate change and sustainability challenges.

Enhanced trade and investment with developed, emerging and niche markets

The industry should be better promoted abroad through improved collaboration between industry and government, including more effective consultation and engagement on appropriate international promotion activities.

Even stronger partnerships and alliances can be created with developed markets, while the UK's distinctive capabilities should be leveraged to grow relationships and extend its influence with international firms, financial centres and governments in emerging and niche markets.

A leading FinTech and innovation centre

The UK's FinTech sector can help drive the financial industry's evolution, enabling transformation through technology. The way firms deliver products and services can be made more effective and efficient, while experiences and offerings for retail and business customers should be revolutionised.

The UK must provide a vibrant and productive ecosystem for FinTechs and financial innovation. Steps should be taken to attract world-leading domestic and international entrepreneurial, digital and financial talent to the UK FinTech ecosystem. There should be access to deep pools of funding from varied sources across all stages of the lifecycle. The sector should be supported by a pioneering, best-in-class regulator and a regulatory environment that is supportive, proportionate and balanced.

There should be global centres of excellence in the research and application of key technologies such as AI, quantum computing and blockchain across the UK.

Access to deep pools of the best, diverse domestic and global talent

The UK should grow and develop the digital and entrepreneurial skills required by the industry. For example, mathematical programming skills can support machine learning and AI, developers and designers can transform user experiences, and technologists and engineers can deploy new systems using technologies such as blockchain and the Internet of Things.

These new skills should be created through stronger partnerships between the industry and educational institutions. New learning programmes should be rapidly developed to respond to skills shortages, while talent should be increasingly developed through apprenticeships.

The UK-based financial and related professional services industry should attract the best talent from home and internationally, drawing upon the country's reputation as one of the most desirable places to live and work, and its status as a global business hub. It must champion diversity and inclusion, attracting highly skilled talent, from younger generations and varied backgrounds, into all sub-sectors.

Agile and simple processes can enable efficient and flexible access to international talent. Visa processing should be simple, low-cost and flexible. It should be possible to quickly reorient the visa system to fit changing skills needs and the different talent profiles required.

Internationally focused, strong and agile regulation

UK regulators and policymakers must continue to lead the development of an open and compatible global financial system. They can provide global leadership and promote consistent regulatory standards and approaches. Mutual market access should be facilitated with all other major financial centres.

The UK's regulatory regime must be strong, proportionate and internationally attractive. Customers and stability should be safeguarded, and innovation and competition should be promoted. Existing regulations and standards should be critically assessed on a regular basis to address unintended consequences.

UK regulators must be agile, responding to the changing nature of financial services. The regulatory framework should be periodically redesigned to ensure it is fit-for-

purpose and can react to changing customer needs, innovation and technological trends. Judgement-based decision making should be adopted. Resourcing of regulators should reflect the scale and complexity of the UK financial and related professional services industry.

Regulators should recognise the importance of strong, agile regulation in supporting the UK's competitive position as a leading international financial services centre. The UK requires a regulatory regime that is accessible, flexible, responsive, proportionate and rigorous, and which underpins confidence in the integrity, fairness and transparency of UK financial markets.

A simplified, stable and internationally competitive tax regime

As with legal certainty, the tax regime must be stable, and become renowned for being so. This means that change would need to be managed very carefully, signposted on published roadmaps and introduced according to clear principles. These principles should include adherence to consultation timetables; and keeping the legislation from becoming too complex or too lengthy in the future.

The UK should undertake a programme of tax simplification, making our tax law, and the outcomes to be expected from it, clearer for taxpayers. While rates should remain competitive, such an exercise can reduce the need for complex detail and would reduce the cost of compliance.

The UK tax authority's (HMRC) customer relationship regime is world-leading as an approach. The government should ensure that investment is made in talent within HMRC and that the customer relationship regime is supported and developed further.

It is important that the tax regime supports the industry's need for access to talent. The regime should be reviewed to ensure that it does not contain barriers to global mobility, and that it remains competitive when compared with other jurisdictions.

World-leading digital and physical infrastructure

Government and industry should work together, with more effective use of public-private partnerships (PPPs), to provide world-class infrastructure throughout the UK.

There should be universal and reliable coverage of super-fast broadband and mobile internet access. There should be uninterrupted coverage on all key transport routes and the UK should be a global leader in 5G speed and coverage. This would enable total connectivity, with flexible working from any location, and catalyse the continued growth of the FinTech sector and the digital economy.

There should be frequent and fast connections between domestic and international financial centres. This would include airports with higher capacity and high-speed rail connections between major UK cities. It should be efficient to travel within all UK financial hubs, with de-congested roads and public transport enabling rapid movement within financial districts.

Internationally trusted legal system and rule of law

The UK should continue to offer a strong, clear and consistent system of law. This would include maintaining an independent judiciary and effective objective mechanisms for international commercial dispute resolution. The UK should continue to provide access to world-leading legal advice and legal services.

Achieving the vision will deliver a boost to the industry and the UK economy as a whole

A more digital and customer-centric industry would drive greater **innovation**. The introduction of new financial products and services, such as FinTech solutions, will deliver new sources of industry growth, as well as productivity benefits to other sectors.

By retaining a full financial and related professional services ecosystem, the UK can generate greater inward investment, and maintain and grow its **export competitiveness**. This will help the UK capture a larger share of global exports of financial and related professional products and services, relative to other international financial centres.

Continued cost reduction and improved **efficiency**, through rebalancing the industry's footprint from London to the regional and national centres and the use of digital or labour-saving technology, can drive a lower cost of financial services for the rest of the economy.

THE INDUSTRY VIEW ON FACTORS FOR SUCCESS

Key themes impacting the industry and a number of important factors that determine financial centre attractiveness have been identified

Industry leaders across UK-based financial and related professional services have voiced consistent themes

London has built enviable strengths but cannot be complacent

“London’s strength and depth as a financial centre is rivalled only by New York”

London’s position of strength has been built up over hundreds of years leveraging factors such as language, time zone and the rule of law. A large number and variety of institutions have co-located in London, including business, finance, government and more recently technology firms, which creates an important ‘cluster effect’. As a result, London is now a source of deep pools of talent, capital and liquidity.

However, industry leaders emphasised London’s potential vulnerability. They highlighted lessons from the past, which demonstrate that prominence can be lost and complacency must be avoided.

Brexit poses a significant longer term risk of eroding the ‘cluster effect’

“Firms will start small, with the ability to scale their European presence up or down”

The UK will experience many smaller short term impacts as a result of Brexit, with the longer-term risk that the ‘cluster effect’ is eroded. A new European financial centre to rival the UK is unlikely to emerge any time soon, but Europe as a whole could become less efficient and the US and Asian centres could benefit.

There are a number of critical advantages that the UK must preserve

“Losing the global asset managers would be disastrous for London’s position as an international financial centre”

The UK will need to secure continued access to the best global talent, protect key parts of the financial ecosystem and retain its international orientation. An appropriate supporting environment should be maintained to enable domestic and international businesses to prosper.

Technology will fundamentally transform financial services

“Technology changes everything: robots will drive productivity, cognitive learning will transform client facing work and AI will improve investment returns”

Technology will continue to transform products and working habits, as well as making it possible for related activities to be carried out in different locations. This transformation is already being observed in the industry, but will accelerate in the coming years and will be revolutionary. Employment in financial services and legal firms is likely to reduce relative to the size of the future industry. However, technology will create new jobs requiring different skills.

Emerging markets will become more important for the industry

“China is a big target market but we lack the local expertise needed to serve customers effectively”

Emerging markets will act as the engines of global growth and financial centres will need to provide relevant products that meet their changing needs. The UK is well positioned to serve growth markets, but cannot afford to miss the opportunity to build deeper partnerships and extend its influence with these economies.

There is a real opportunity for greater regionalisation of the industry

“The wage differential to off-shore centres is closing, while expertise and productivity in UK regional centres remains strong”

While London will remain very important, there will be benefits from further regionalisation. UK regional and national financial centres can increasingly specialise and deploy talent to exploit a cost advantage over London and productivity advantage over traditional off-shoring centres.

There is desire for a more constructive partnership across the industry

“As an industry, we need to work together to regain the trust of society”

While steps are being taken to rebuild trust and there are signs that this is slowly improving, industry leaders appreciate that there is still some way to go. The industry recognises the need to transform itself and earn the right to form a more constructive partnership with regulators, government and media.

There is agreement about the key factors which determine financial centres' attractiveness

Industry leaders have highlighted the key factors which determine financial centre attractiveness. It is crucial to have either a thriving domestic market, both in size and key features, or the ability to act as a trade centre and access other markets. An appealing lifestyle proposition and world-leading technology and infrastructure helps to attract the highly skilled people on whom the industry depends, and an attractive regulatory and tax regime is of critical importance for businesses to thrive. These factors need to be underpinned by stability, reputation, a robust democratic political system and a strong legal system.

Domestic market size and nature

The size and nature of the domestic market influences where businesses choose to locate the market opportunity for both national and international firms. A large and sophisticated domestic market can help advance a domestic centre to international standing. Bigger domestic markets provide capacity for growth and the financial industry

prosper when there are other industries present that need to be served.

Trade centre and access to other markets

A centre that is a marketplace for international trade and can provide liquidity is important for business. Access to international markets, assisted by a time zone that overlaps with other business centres and global financial hubs, with international trade and investment links that are not hindered by costly tariffs and market access barriers, allow businesses to operate effectively. Firms need to be close to their customers, to understand their needs and to serve them best – a location that can offer this ‘cluster effect’ of businesses, finance, government, and supporting industries together is highly advantageous.

Access to skills

The ability to hire from a diverse and highly skilled workforce helps to determine where businesses are located.

Attractive centres are those with a rich pipeline of domestic talent and which can attract leading international talent. Top talent tends to be drawn to open and innovative centres that offer a great lifestyle and prospects. This attracts the top global institutions, important international clients and leading-edge work. This in turn attracts the best people, creating a virtuous cycle of success.

Regulatory environment, language and rule of law

A strong, predictable and proportionate regulatory regime, which allows for innovation, helps to attract both large institutions and smaller businesses to a financial centre. The ability to conduct business in English; a strong, clear and consistent system of law; a robust and independent judiciary; and effective dispute resolution mechanisms are further important features.

Technology and infrastructure

World-leading infrastructure supports both businesses and people that live within the centres. Good domestic, regional and global transport links that allow for efficient travel within cities, between cities and to other countries are important. A digital infrastructure that is quick,

reliable and easily accessible, including both broadband and mobile connectivity, helps to increase workplace productivity and mobility.

Tax environment

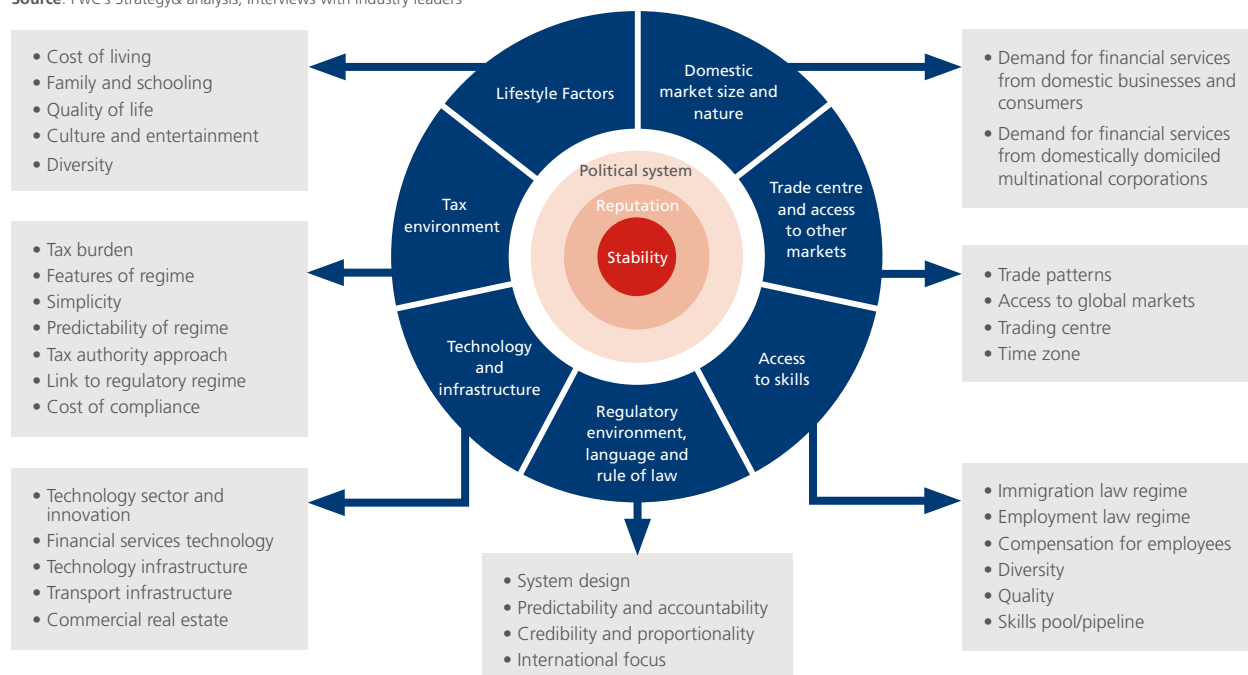
While tax rates are important, the tax regime must be internationally competitive as a whole. It is also important that the tax regime is perceived by businesses and individuals to be stable and predictable. Tax policymakers and tax authorities must be high calibre and knowledgeable about the sector and must be open to constructive dialogue. Attractive tax regimes are competitive in relation to talent and global mobility.

Lifestyle factors

Offering an attractive place to work and live is critical to encourage top decision-makers and specialist talent to move to a centre. More attractive cities offer comfortable, affordable and accessible housing, efficient travel options and low crime. Executives seek world-class schools and tertiary institutions for their children's education. People appreciate an abundance of entertainment, cultural and culinary attractions that provide the buzz of living in a major city and contribute to a high quality of life.

Figure 11: PwC's Strategy& financial centre assessment framework

Source: PwC's Strategy& analysis, Interviews with industry leaders



THE UK'S LEADING POSITION IS UNDERPINNED BY A NUMBER OF DISTINCTIVE ADVANTAGES

The UK has developed a full financial and related professional services ecosystem, built on distinctive strengths that have developed over a long period of time

London has a long and impressive history as a financial centre

Historically, financial centres have tended to cluster around engines of economic growth – examples of this include the rise of Venice as one of Europe's major financial centres in the 15th century due to its status as a trading market. The origins of London's position as a financial centre can be traced to the late 16th century, with the foundation of key financial institutions such as the Royal Exchange, Barclays Bank and Lloyd's Market. The UK experienced strong economic growth during the industrial revolution and enjoyed a period of wealth creation as world trade gradually shifted towards London. During the latter part of the 20th century the Bank of England provided stable regulation which helped to catalyse the expansion of financial services. The 'Big Bang' in 1986 resulted in deregulation of the UK financial markets, allowing for increased innovation in new products such as OTC derivatives, and pushed London to the forefront of international finance, a position which it has maintained ever since.

The UK's position as an open, leading global cluster for financial and related professional services is built on distinctive strengths

The UK's status today as the leading international financial centre is underpinned by a number of strengths. It is part of a large domestic economy and has access to European and international markets. There is a 'cluster effect' in London that has been built up over time, with the co-location of all sectors of finance, business, technology and government. This also helps it to benefit from deep pools of capital and liquidity as well as strong risk management. Other key strengths include access to highly skilled people, attracted to the UK by a desirable lifestyle, while the dominant use of English law and language and a strong and innovative regulator have helped to position the UK as an open and leading centre. Each of these strengths is discussed in further detail below.

Figure 12: UK's key strengths and current position

Source: PwC's Strategy&

Key strengths



UK's positioning



The UK as an open, leading global cluster for financial and related professional services, providing comprehensive and integrated offerings to serve the international and domestic markets

1. The UK has access to domestic, European and international markets

The UK financial sector benefits from demand from a large domestic financial market, with domestic banking assets totalling \$8.8 trillion in 2015 – behind only the US, China and Japan.⁵ The UK is a highly financialised market – for example the UK's domestic insurance sector ranks second behind only the US, with £337bn in domestic insurance premiums in 2015.⁶

In addition to a substantial domestic market, the UK has been able to successfully export its expertise in financial and related professional services and build its expertise in serving international markets. Indeed the UK has a greater comparative advantage in financial and related professional services than in any other industry.

This has contributed to the UK boasting the largest financial services trade surplus of any nation, totalling \$97bn in 2015, almost three times larger than the US's and larger than the combined surplus of all other industries in the UK which register trade surpluses.⁷

The UK's largest trading partners are other EU member states and the US, but it also has important relationships with other advanced economies, including Switzerland, Japan, Australia and Canada. Emerging and niche economies are also important to the UK as they represent valuable sources of future growth.

The UK also has historical links with centres located in the crown dependencies. These relationships are mutually beneficial, with jurisdictions benefiting from each other's specialist services which have built up in Jersey, Guernsey and the Isle of Man.

London's pre-eminence as an international financial centre has been helped by its timezone, which supports access to global markets. This positioning allows the UK-based industry to serve customers and conduct business with both Asian and American markets throughout normal working hours.

Figure 13: Financial services trade surplus, 2015 (US\$ bn)

Source: UN conference on trade and development 2015

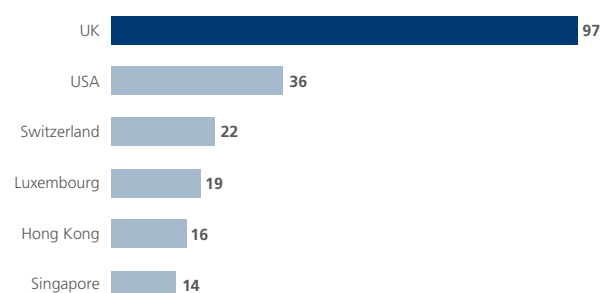


Figure 14: Top five countries for selected financial and related professional services sectors

Darker shades indicate higher ranks

	Banking, 2015 ¹	Investment banking (fees), 2016 ²	Equity trading, 2016 ³	FICC trading, 2016 ⁴	Insurance (life), 2016 ⁵	Commercial ins and reinsurance, 2013 ⁶	Settlements in CCPs, 2016 ⁷	Asset management, 2016 ⁸	Wealth management, 2016 ⁹	Legal services, 2016 ¹⁰	Accounting, 2016 ¹¹	Consulting, 2016 ¹²
US	2	1	1	2	1	1	1	1	3	1	1	1
UK	3	3	4	1	3	2	2	2	2	2	2	2
China	1	2	2		4	4	4				1	
Germany	5					3	5	4		4	3	3
France					5			3		5	4	4
Japan	4	5	3	5	2	5	3					
Canada		4								3		5
Switzerland								5	1			
Hong Kong			5	4					4			
Singapore				3					5			

¹ Total banking assets, 2015. Source: Federal Reserve, Bank of England, ECB, Bank of Japan.

² Investment banking fees, 2016. Source: Thomson Reuters Deals Intelligence

³ Value of share trading in main exchange, 2016. Source: WFE

⁴ Combined OTC interest rate derivatives and FX trading volumes, 2016. Source: BIS

⁵ Gross premiums written in reporting country, 2015. Source: OECD

⁶ Gross premiums written in reporting country, 2013. Source: London Market Group

⁷ Turnover cleared for OTC and Exchange Traded Derivatives, 2014. Source: IMF

⁸ Assets under management, 2016. Source: IPE

⁹ Private client market volume, 2015. Source: Deloitte Wealth Management Centre Ranking

¹⁰ Number of experts' profiles listed on Who's Who Legal, 2016

¹¹ Accounting revenues, 2016. Source: International Accounting Bulletin

¹² Consulting revenues, 2015. Source: Source Global Research

2. There is a 'cluster effect' of a full ecosystem, including the co-location of finance, business, technology and government

Expertise in banking, insurance, fund management, securities, derivatives and foreign exchange are all present in London. Their co-location with the technology sector, accountancy, consultancy, legal and other related professional services, as well as proximity to government, contributes to London's uniquely rich and complete ecosystem.

This 'cluster effect' in London is more pronounced than in many other leading international financial centres. For example, in the US, government is in Washington DC, finance is in New York and technology is centred in San Francisco. The co-location of these institutions and sectors in London facilitates rapid face-to-face interaction between experts and decision-makers in different organisations.

The UK holds a top-five position in almost all sectors within the industry, with particular strengths in fixed income currencies and commodities (FICC) trading, commercial insurance, asset management and international listings.

The UK is one of the leading global FinTech centres in terms of revenues generated,⁸ and has a large pool of FinTech talent, with 61,000 employees in 2015.⁹

The UK FinTech market, with 2015 revenues of £6.6bn, is the 3rd largest in the world, after China and the US

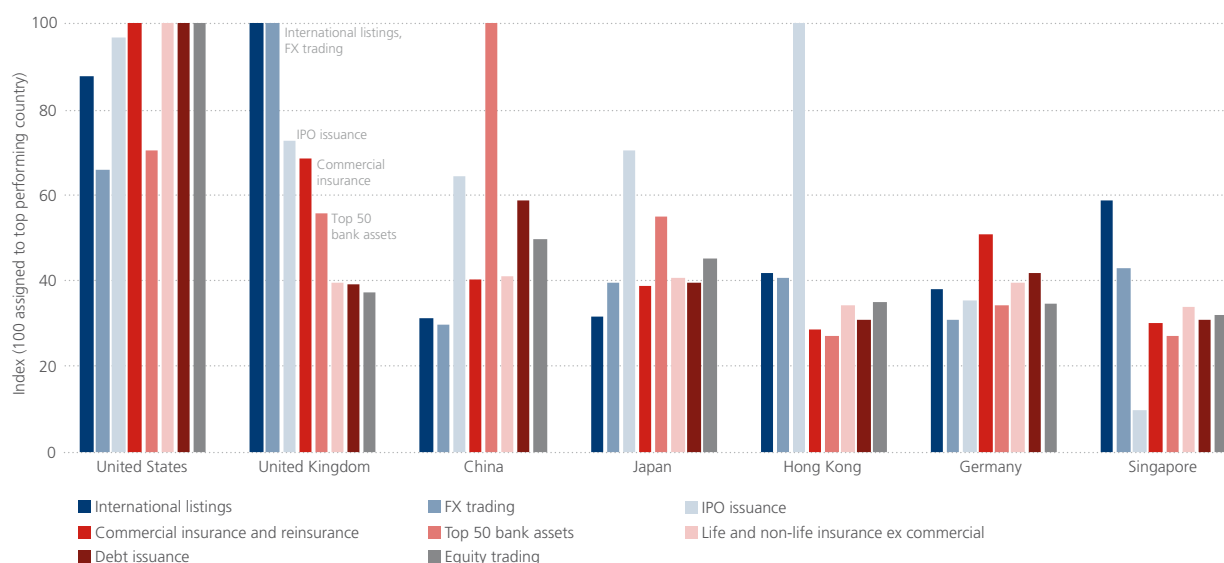
3. The UK provides deep pools of capital and liquidity and strong risk management

A key advantage of the UK is the presence of deep pools of capital and liquidity. These are important as they help support a low and stable cost of capital for institutions and allow firms quick and easy access to financing.

The UK's performance in key financial services sectors demonstrates these deep pools of capital: the UK has a leading position in international listings and FX trading and is second only to the US, which has access to a much larger local market, in terms of commercial insurance and reinsurance.

Figure 15: Indexed performance in key financial services sectors/product areas for leading financial centres

Source: International listings: LSE Group, Deutsche Boerse, New York Stock Exchange, Nasdaq, Stock Exchange of Hong Kong, Shanghai Stock Exchange, Singapore Stock Exchange, Japan Exchange Group, data as at 2016. FX trading: BIS Triennial Central Bank Survey of foreign exchange and OTC derivatives markets in 2016. IPO issuance: S&P Capital IQ, 2015 issuance. Commercial insurance and reinsurance: London Market Group (2015) "London Matters: The Fact Base", data as at 2013. Top 50 bank assets: The Banker Database, data as at 2015. Life and non-life insurance: OECD Insurance Database, data as at 2015. Debt issuance: Dealogic, data as at 2016. Equity trading: World Federation of Exchange, data as at 2016. Sovereign bond trading: SIFMA, Asian Development Bank, Agence France Trésor, German Finance Agency, UK Debt Management Office, data as at 2016.



The UK also performs strongly in initial public offering (IPO) issuance, reflecting its status as a leading capital markets centre. Outside of the US, only Hong Kong, which benefits from close access to the large Chinese domestic market, performs more strongly.

4. UK firms have access to highly skilled talent pools

The UK offers access to plentiful and high-quality talent, greatly enhancing its attractiveness as a financial centre. The quality of talent is consistent at experienced levels as well as among graduates, with the UK able to attract high-quality international talent at all levels, as well as producing a large number of skilled graduates each year.

Of the highly skilled graduates produced by UK universities in 2016, 39% were international students.¹⁰ This is the highest proportion of countries with competing financial centres.

In addition to the depth and international nature of the talent pool, the UK's leading universities are spread throughout the country, with twelve of the world's top 100 universities located in eight UK regions and nations.¹¹

Figure 16: Graduate numbers from Times Global Top 100 universities in 2016

Source: Times Higher Education World University Rankings 2016-2017, The Complete University Guide, Higher Education Statistics Agency

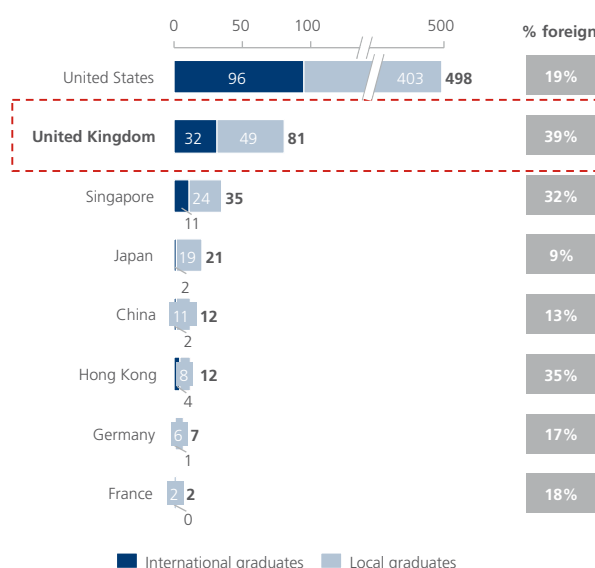


Figure 17: Ranked performance of leading financial centres in aspects of lifestyle attractiveness

Source: World Cities Culture Forum, Financial Times, Times Higher Education World University Rankings, World's 100 Best Restaurants awards, PISA, PwC's Strategy& analysis

Red cells show top 5 ranking between selected financial centres, with darker shades indicating higher ranks

		London	New York	Hong Kong	Singapore	Tokyo	Paris	Frankfurt
Culture, art and entertainment	# of concert halls	1	2		5	4	3	
	# of theatres	3	1	5		4	2	
	# of restaurants in Top 100	3	1	5	5	4	1	
	# of museums	2	4		5	3	1	
	# of art galleries	2	4		5	3	1	
	% of UNESCO sites	1	4		4	3	1	
Education	# universities in Top 100 ²	2	1	4	5	5		3
	# of Top 50 Global MBAs ²	2	1	5	3		4	
	OECD PISA school ranking	4		3	1	2		5
Diversity	% of international students ¹	1	4	2	3		5	
	# of foreign nationals	1	2	4	3	5		
	% of foreign nationals	2	3		1		5	4

¹ Calculated as average of % of international students in Times Top 100 universities² Analysed at a country level

5. The UK offers an attractive lifestyle

The UK offers world-leading cultural attractions, a strong end-to-end education system and diverse, metropolitan environments. London for example, is home to six of the top 100 restaurants in the world, second only to the eight offered by New York and Paris.¹² The city is also one of the greenest in the world with 47% of green space.¹³

The UK's globally leading cultural status is also evident in the number of concert halls, UNESCO world heritage sites and museums and galleries – where London ranks in the top two financial centres in each.¹⁴ The sporting culture and facilities across the UK are also world class with events such as the Premier League, Wimbledon, Ascot, the Ashes and Henley attracting international attention.

The UK has world-leading universities and business schools. It is also the highest ranked leading financial centre, outside of Asia, in terms of the programme for international student assessment (PISA) school rankings, which is a measure of pupils' performance in mathematics, science and reading. Diversity is a key attraction: the UK

has the highest proportion of international students and the largest number of foreign nationals compared to other leading financial centres.

6. International use of English law and language are key strengths

English law holds a pre-eminent position internationally with 27% of the world's 320 jurisdictions using English Common Law.¹⁵ English law has also been identified as the preferred choice of governing law for cross-border contracts – a position that has helped the UK rise to international prominence and build its global influence.

In January 2016, a survey of 500 commercial law practitioners and in-house counsel conducted by the Singapore Academy of Law found that 48% of respondents identified English law as their preferred choice of governing law in contracts, often in transactions with little or no other link to the UK.

Similarly, in a survey of 100 European businesses, 59% stated that English was the most frequently used contract

law for conducting cross-border transactions, over four times more than the next most frequent option.¹⁶

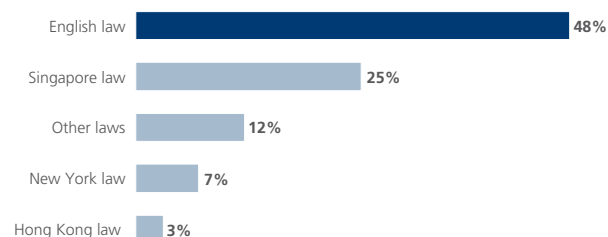
London provides unrivalled access to high quality legal advice, contract drafting and dispute resolution services. In addition to UK-headquartered firms, over 200 overseas law firms from 40 jurisdictions practise in London, including 100 US law firms.¹⁷

London is a popular choice of seat for international commercial arbitration, with a reputation for experienced and expert arbitrators. More arbitrations take place in London than in any other city in the world. English courts are renowned for being a forum where litigants can be confident their disputes will be determined on their intrinsic merits.

Figure 18: Preferred choice of governing law for cross-border contracts

Source: Study on Governing Law and Jurisdictional Choices in Cross-border contracts

Preferred choice of governing law in a survey of 500 commercial law practitioners and in-house counsel who deal with cross border transaction in Singapore and the region



The English language also provides the UK with a distinctive advantage. As the fastest-spreading language in human history, English is spoken at a useful level by some 1.75bn people worldwide, which is 25% of the global population.¹⁸ Importantly, English has become the leading global business language. A large number of multi-national companies which are headquartered in non-English speaking countries have adopted English as the common corporate language, in order to facilitate communication and improved performance between business units with different native languages. The native use of English for UK-based firms provides them with a competitive edge in a world that is rapidly adopting the language as a common tongue.

7. The UK has high-quality regulators, with a strong regulatory regime





The UK has high-quality and experienced regulators, with a strong regulatory regime in place. The strength and accessibility of the regulators in the UK is often cited by industry leaders as a differentiator compared to other international financial centres, with regulatory staff considered to be market-leading.

UK regulators have also played an important role in promoting innovation. The Financial Conduct Authority (FCA) launched Project Innovate in October 2014 to support firms with 'fast, frank feedback on the regulatory implications of their concepts, plans and choices'. As part of Project Innovate, the FCA also created a regulatory sandbox to allow businesses to test innovative products and services in a live environment without immediately incurring typical regulatory consequences. The regulatory sandbox demonstrated the FCA's greater commitment to flexibility and supporting innovation compared to other regulators. It is open to regulated entities and FinTech start-ups – in the first cohort there were 24 successful applications from a pool of 69 applications.¹⁹

HMRC and policymakers are strong, knowledgeable about the sector, and open to constructive dialogue. HMRC has introduced a customer relationship regime which has been very successful, and which other jurisdictions seek to emulate.

Figure 19: Presence of FinTech sandboxes, and number of FinTech regulation co-ordination agreements in leading financial centres

Source: Global FinTech Hubs Federation, TheCityUK, Innovate finance

	FinTech Sandbox Start date	Co-operation agreements with other regulators
Singapore	June 2016	8 
UK	May 2016	7 
Japan	–	2 
Hong Kong	Sept. 2016	1 
USA	Sandbox proposed	–

THE INDUSTRY NEEDS TO ADDRESS SPECIFIC CHALLENGES

A fact-based assessment of UK-based financial and related professional services today highlights a number of challenges that the industry must address

Figure 20: Selected industry challenges for UK-based financial and related professional services

Source: TheCityUK PwC's Strategy&

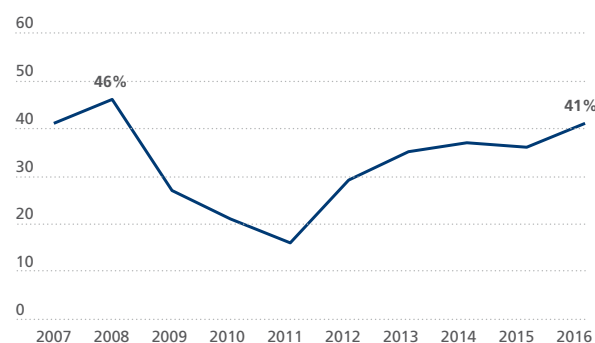
Rebuilding trust	Delivering economic value	Serving domestic needs	Competing internationally	Innovating with technology	Accessing best global talent
The industry has poor reputation and relatively low levels of trust	Although employment is spread across the UK, value creation remains concentrated in London	There are growing product and service gaps in the industry	Under-developed trading relationships with emerging and growth markets	There is a gap in funding available to FinTech scale-ups	Increasing difficulty attracting top talent and millennials to the industry

1. UK-based financial services has a poor reputation and relatively low levels of trust

Trust in the industry tumbled following the financial crisis, and although it has recovered somewhat since then, it remains below its pre-crisis level. Edelman's Trust Barometer, which tracks public trust in business, puts the public trust level in financial services at 46% pre-crisis, dipping to a low of 16% in 2011 before recovering to 41% in 2016.²⁰

Figure 21: Public trust in the UK financial services sector 2007 – 2016

Source: Edelman Trust Barometer



Although these results show some signs of a recovery in public trust, the financial industry in the UK continues to compare poorly with both international competitors and other UK industries, in particular technology. Indeed, the technology industry is trusted by almost three-quarters

of the surveyed population – compared to just 41% who trust the financial services sector.

Furthermore, 87% of opinion formers among the general public believe the banking industry as a whole is still not doing enough to change its culture.²¹

A Citizens Jury, conducted in January 2017 by BritainThinks and PwC, highlighted the difference between the perception of firms within the sector, and the industry overall. Indeed, while people often trusted institutions with which they had personal experience, the panel demonstrated a lower level of trust in the sector as a whole. In particular, the panel identified: the opacity of many financial products; a language barrier between 'everyday' language and the language used by the sector; and the link between the sector and the 2008 financial crisis as impediments to the sector regaining trust.

Figure 22: Trust in UK financial services relative to other UK industries (2016)

Source: Edelman Trust Barometer

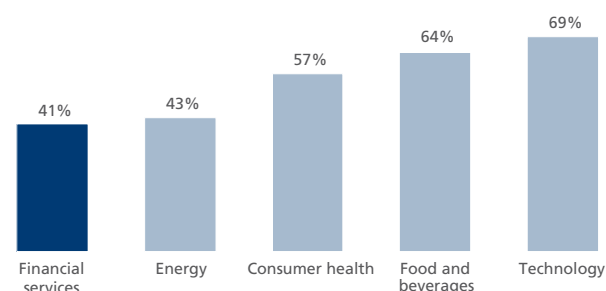
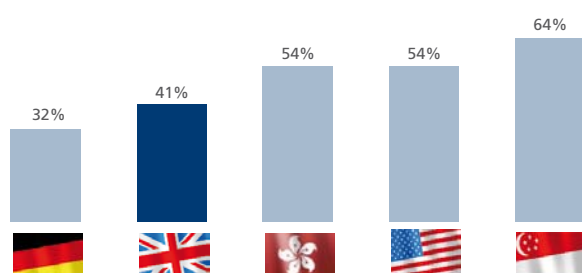


Figure 23: Trust in UK financial services relative to trust in financial services in other countries

Source: Edelman Trust Barometer



2. There are growing product and service gaps in the industry

Despite the key role that the financial sector currently plays in society, there are noticeable existing and emerging service gaps which need to be addressed.

Increasing life expectancy, low levels of lifetime saving and a low interest rate environment are key factors in the deficit

between pension fund assets and liabilities. In the UK, the cumulative deficit of UK defined benefit pension schemes is estimated at £510bn.²² This reflects a wider challenge in supporting an ageing population, building a savings culture, and providing long-term care without placing an unsustainable burden on the working population.

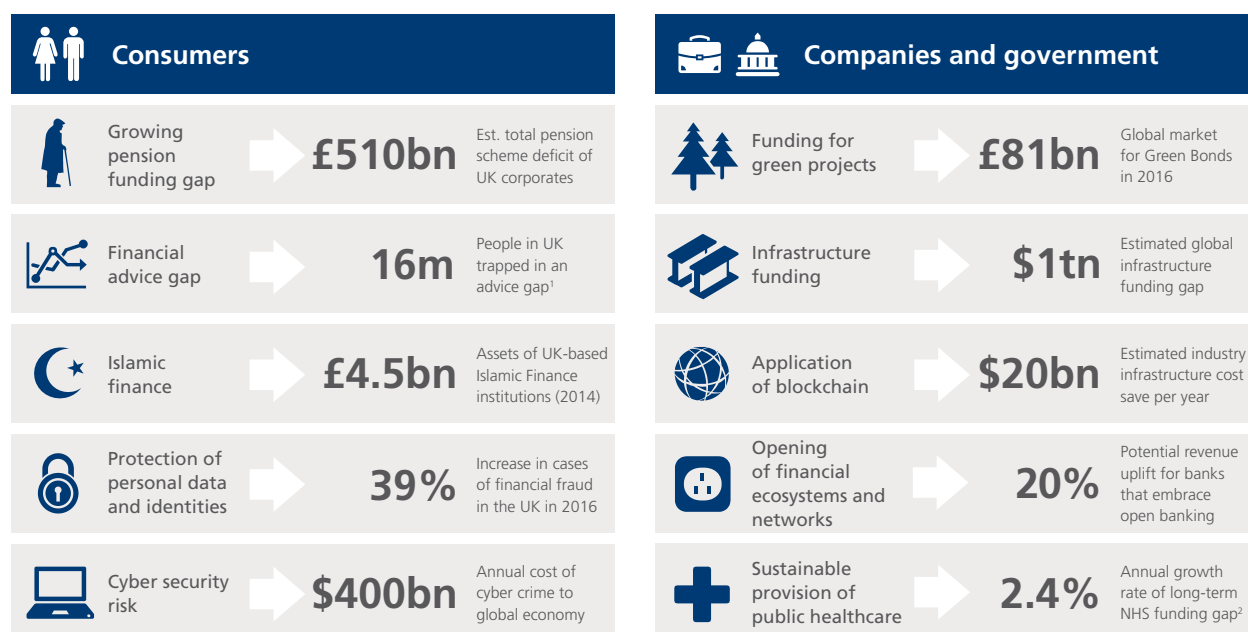
The 2015 Financial Advice Market Review highlighted the affordability and accessibility challenges in the market for financial advice in the UK. Estimates put the number of people trapped in a financial advice gap, (i.e. those needing financial advice but unable to access or afford it) as high as 16 million.

As the world shifts towards a digital economy and sees a shift in the importance of digital assets, the threat from cyber-crime and the need to protect digital assets and personal data will increase enormously. Indeed, the annual cost to the global economy of cyber-crime in 2014 was estimated at approximately \$400bn and gross written premiums for cyber insurance, which totalled \$2.5bn in 2014, are expected to exceed \$7.5bn by 2020.²³

There is already a burgeoning global market for Green Bonds, estimated at \$81bn in 2016.²⁴ However, global

Figure 24: Product and service gaps in the industry sector

Source: OECD, ONS, FCA, City AM, Accenture, Santander, IoT analytics, Arcadis, Institute and Faculty of Actuaries, Green Finance Initiative, Prequin, PwC Digital Times



¹ Est. number of people priced out of financial advice.

² Difference between real terms annual spending increases in English NHS and expected long term GDP growth rate (2060).

temperatures are predicted to continue increasing to levels at which scientists believe irreversible damage will occur. Given the urgency of tackling climate change, the demand for funding for green projects will continue to grow.

The World Bank estimates that there is an annual gap between infrastructure investment requirements and actual investment levels of approximately \$1 trillion globally. Much of this is driven by the demand for new infrastructure from emerging market economies. However, the UK also has a large funding gap, with investment in infrastructure as a percentage of GDP flat since 2008. The physical asset wealth per capita the lowest among G7 nations.²⁵

The global Islamic finance industry has seen growth of between 10% and 12% every year for the last decade.²⁶ This is driven by the growth in populations of Islamic emerging market countries, and the increasing financial sophistication of customers in those countries. With less than 20% of the world's 1.6bn Muslims using Islamic finance products, the market still has considerable headroom for sustained future growth.²⁷

The UK has more Islamic banks and conventional banks offering Sharia-compliant products than any other non-Islamic country, and the Bank of England is developing a Sharia-compliant central bank facility. Therefore, the UK has the potential to build on its existing position as a Western centre for Islamic finance, to become a global leader in this market.

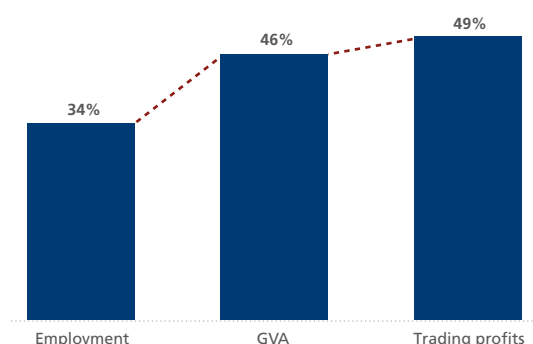
3. Although employment is spread across the UK, a London bias remains

The industry employs over two million people right across the country, representing around 7% of the working population, with around two-thirds based outside of London.²⁸ There are also clear examples of firms embracing the potential of regionalisation, for example, HSBC's recent relocation of the head office of its ring-fenced retail bank to Birmingham.

However, despite the high employment outside London, 46% of the industry's GVA and 49% of trading profits are generated in the capital, suggesting it is still extremely London-centric. There is potential for greater regionalisation and better linkages between national and regional centres to improve efficiency and knowledge sharing.

Figure 25: London-based financial and related professional services employment, GVA and trading profits as proportion of UK total in 2015

Source: TheCityUK, Annual Business Survey 2015
Gross operating profit of private market entities other than sole traders



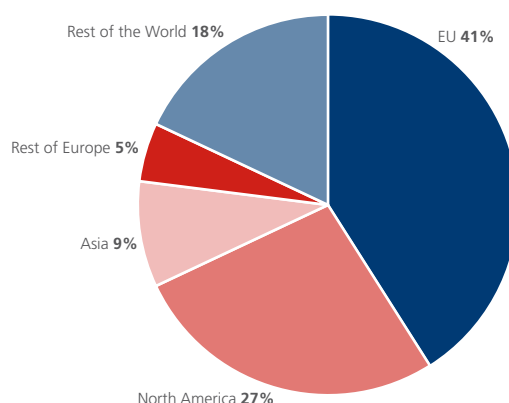
4. Concentration of trading relationships on developed markets to be diversified

While the UK has the largest financial services surplus of any country globally, and exports to an extensive range of countries around the world, the majority of international trade is concentrated with a small number of key partners.

In particular, almost 70% of UK financial services exports are to the US and EU, which together represent 46% of global GDP.

Figure 26: UK financial services exports by region, 2015

Source: ONS Pink Book 2016



The UK will need to retain these strong trade partnerships, while looking to extend its relationships with other countries. More should be done to enhance trade and investment with high growth economies. Between 2011 and 2015, the US grew its share of China's financial services imports from 11% to 28%; during the same period, the UK's share remained unchanged at 3%.²⁹

5. There are gaps in FinTech scale-up funding and domestic digital talent

The UK attracts more venture capital (VC) funding than any of its European competitors, and while tax incentive regimes, such as the seed enterprise investment scheme (SEIS) and the enterprise investment scheme (EIS), have been successful in incentivising investment by individuals in start-ups and early-stage companies, it is important that exclusions and limits do not in practical terms prevent financial sector innovators from accessing tax incentives.

In the UK, there remain gaps in the availability of funding. In particular, the availability of funding for FinTechs raising second round or later financing rounds is below that in key competing markets. The UK has fewer large VC funds relative to the US, meaning that UK FinTechs are more likely to draw on VC funding from abroad in later funding rounds. However, many domestically focused FinTechs present a less attractive proposition than US start-ups with similar risk profiles, because of the far-greater upside potential within the US domestic market. To attract global VC funding, UK FinTechs typically need a compelling international business model and scale-up plan.

In addition, VC funding for FinTechs is heavily concentrated in London and the South East. In 2015, there were 148 VC investments in companies in London and the South East cumulatively worth \$265m.³⁰ While there were 185 investments by VC funds in the rest of the UK, they totalled just \$80m.³¹

The UK also has a gap in domestically developed technical skills. The UK lags behind Asian FinTech leaders in developing a greater proportion of STEM graduates. Only 26% of UK graduates have studied a degree in science, technology, engineering, and mathematics (STEM), compared with 50% in Singapore and 40% in China, and although the number of STEM graduates

in the UK increased by 42% per annum between 2005 and 2014, the number of computing graduates fell by 23% per annum over the same period.³² To fill this gap in domestically produced STEM, and particularly, digital talent, the industry has turned to international recruitment to meet its needs with 45% of net digital employment growth between 2009 and 2015 coming from foreign-born workers.³³

Figure 27: Comparison of start-up and scale-up funding available in UK and peers, adjusted for GDP

Source: Barclays Scale-up UK

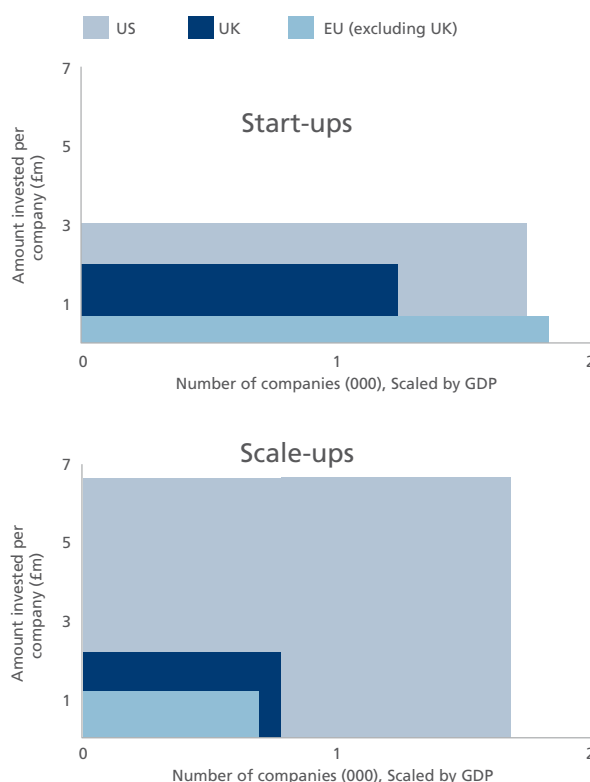
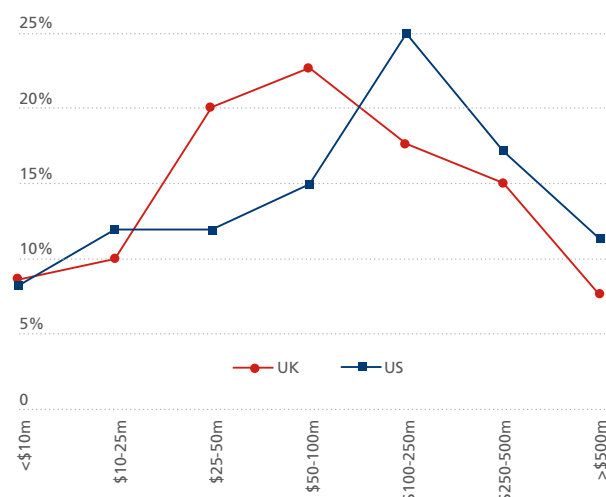


Figure 28: VC fund size distribution

Source: Barclays Scale-up UK



6. Increasing difficulty attracting top talent from a diverse and changing workforce

The industry has not adjusted well to the changing expectations of young employees and an increasingly diverse workforce. This is leading to challenges attracting and retaining leading talent.

The composition of the workforce is changing dramatically, with a significantly higher proportion of younger employees. By 2020, 50% of the global workforce will be made up of individuals born between 1985 and 2000. However, the industry is failing to attract and retain young talent.³⁴

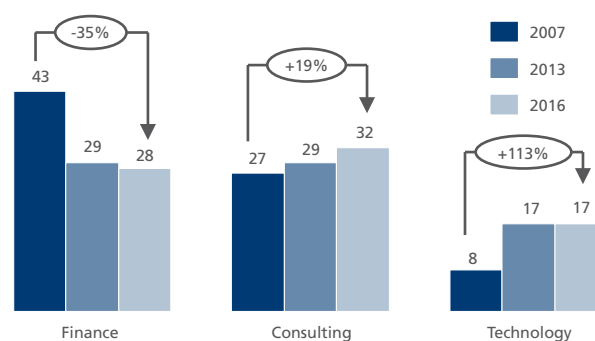
The factors that younger employees value most in a job differ from that of the previous generations. In fact, they have higher expectations of their jobs across more dimensions. The profile of what matters most also differs, with younger employees valuing opportunities to learn and develop, as well as the opportunity to be engaged in interesting work, more than the previous generation.

The percentage of MBA graduates from leading schools entering the financial sector dropped from 43% to 28% between 2007 and 2016.³⁵ In addition, only 10% of young professionals working in the financial services sector plan to stay in their roles long term, compared to 18% across all sectors.³⁶

Figure 29: Sector of employment for MBA graduates from leading schools (%)

Source: PwC Millennials at work

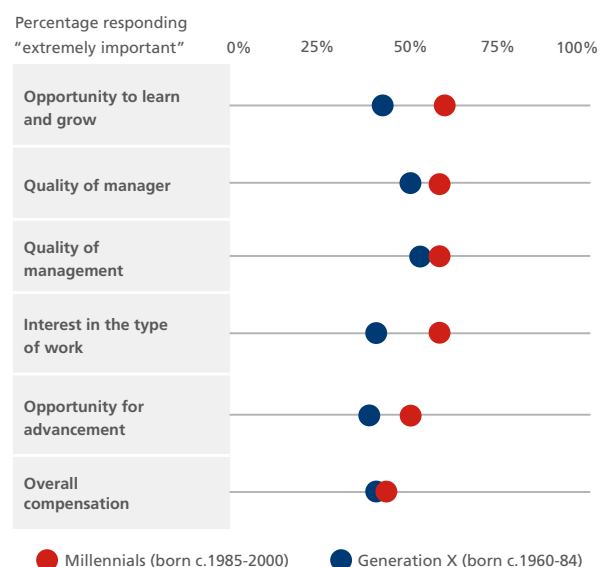
Professions entered by MBA graduates at leading business schools (2007, 2013 and 2016, % of graduates)



Additionally, the industry is currently seen as under-utilising apprenticeships as a method of recruiting young talent and could benefit more from the apprenticeship levy. The financial services sector currently contributes around 10% of total funding, but receives only 3% of delivery.³⁷

Figure 30: The factors that matter most to employees when looking for a job

Source: Harvard Business Review



THE UK-BASED INDUSTRY FACES ISSUES WITHIN THE BUSINESS ENVIRONMENT

There are a number of issues within the UK-based industry's business environment which may increase the challenges of remaining a leading international financial centre

Figure 31: Emerging business challenges for financial and related professional services in the UK

Source: TheCityUK, PwC's Strategy& analysis



1. Brexit is creating uncertainty around the UK's image as a home for global talent

The vote to leave the EU and the current uncertainty surrounding the UK's future relationship with the EU27 has impacted the perception of the UK as a welcoming international centre. This could affect the ability of businesses and universities to attract the best international talent.

Net migration to the UK fell by a quarter to 248,000 in 2016, driven by an increase in EU citizens leaving the country

The ONS reports that there was a 36% increase in emigration by EU citizens in 2016 compared with 2015. This has contributed to a 25% reduction in net migration to the UK, which was 248,000 in 2016.³⁸

A recent Ipsos MORI survey of 40,000 18-34 year-olds from across the G20 nations, measuring the impact of Brexit on perceptions of the UK, found 36% of people stated Brexit has had a negative impact on the UK's attractiveness. Furthermore, 30% indicated that they would be less likely to study in the UK as a result. This is supported by declining application numbers across leading

universities. In fact Cambridge University has reported a decline in applications from EU students for undergraduate courses, which fell 14% after the Brexit vote to leave the EU.³⁹

The university cited the uncertainty around EU student status as the main factor driving this reduction in numbers applying.

2. UK immigration policies are increasingly restrictive and costly

UK immigration policy has become more restrictive over a short period of time. The cost to employers of sponsoring a five-year general visa has increased 250% between 2016 and 2017 and now totals £7,000.⁴⁰

Additionally, the minimum salary threshold upon which sponsorship may be granted has risen 44% between July 2015 and April 2017, from £20,800 to £30,000 a year.

Compared to other leading financial centres the UK's standard visa processing times can be longer. In fact, the average end-to-end processing time (where a premium or expedited processing option is not utilised) for a local hire work permit is 2.1 months and for a permanent residency application around six months.⁴¹ In Germany, processing times average 1.25 months and 2.25 months respectively for each of these types of application. In Hong Kong they average 1.5 months and two months respectively, and in Singapore they average 1.2 months and five months.⁴²

There are, of course, other work permit categories that could be pursued; however, the above-mentioned routes are the most 'permanent' types of permission.

Figure 32: Cost of an employer sponsored general visa in the UK in pounds

Source: UK Immigration and Visa Office

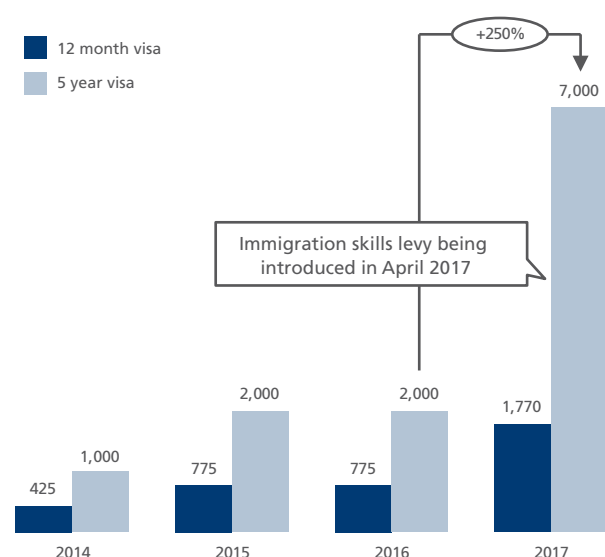
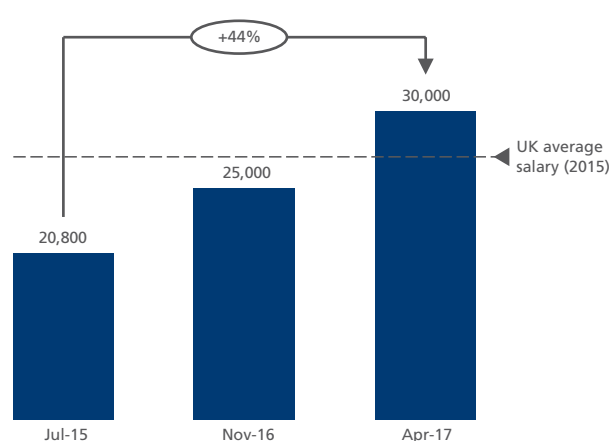


Figure 33: Minimum salary visa sponsorship threshold in pounds £

Source: UK Immigration and Visa Office



3. The drive for a strong regulatory regime has resulted in instances of UK regulation going beyond international standards

The UK regulatory regime has traditionally been seen as offering a strong supervisory environment. However, UK regulation has gone beyond international standards in several areas since the financial crisis, due to the size, complexity and importance of the industry to the UK economy.

Examples of this include: ring-fencing requirements, deferral of remuneration, capital surcharges, the Mortgage Market Review and the Retail Distribution Review.

Given the sophistication of UK financial markets, there may be times when it is appropriate to go beyond international standards. However, this should be balanced with the need to retain the UK's global competitiveness. There should be no race to the bottom on regulatory standards, but the impact of any potential changes to the US regulatory regime should be considered. Improved incentives for US banks to relocate activity back to the US would put a key source of value for London's ecosystem at risk.

In some quarters, the UK regulators' focus on protection and elimination of risk is seen to be at the expense of the attractiveness of the UK to the industry as a whole. Unlike regulators in Hong Kong and Singapore, UK regulators do not reference supporting the attractiveness as a financial centre in their stated objectives.

While the industry has a role to play in tackling long-term public policy challenges (e.g. the ageing population, and infrastructure funding gap), the regulations are not always conducive to recognising the societal benefit that solutions to these problems will provide.

4. Increasingly complex and unpredictable tax regime with recent unattractive changes

The UK's corporate and higher-rate personal income taxes are generally competitive with developed market peers. However, the UK's tax regime has become unpredictable with marked impacts on the financial services sector.

Evidence-based analysis suggests the UK has emerged as one of the least stable tax regimes among world-leading

financial centres. This undermines the attractiveness of the headline corporate tax rate, especially in comparison with other jurisdictions.

The banking sector has been especially targeted for increased taxes (e.g. the bank levy, the bank surcharge, and the special corporate tax losses rules).

Other taxes have fallen heavily on particular parts of the industry, such as the increases in insurance premium tax, and the impact of the changes in the taxation of pensions. Some of the burden is in the cost of compliance for providers, which can be underestimated, and the cost of increases in complexity for consumers, which potentially harms the industry in terms of the accessibility of products.

The taxation of employment and the personal tax regime are also important for the industry. There are a number of issues, and particularly acute for business is the tax treatment of short-term business visitors. It is also important that the regime contains provisions to help when foreign nationals move to the UK to work (as offered by many other jurisdictions), and does not contain disincentives for the attraction of foreign talent.

In respect of the personal tax regime, this should not be so complicated that a mid-tier earner needs an accountant to prepare their tax return.

Figure 35: Comparison of current headline personal and corporate rates of tax across countries

Source: TheCityUK, PwC's Strategy& analysis

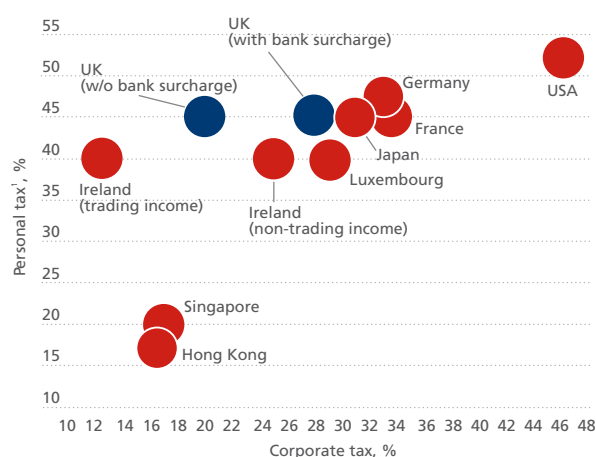


Figure 34: Number of recent changes to tax policies and their impact on the financial and related professional services industry

Source: PwC's Strategy& analysis, Forum for Tax Professionals

Impact on industry

- High negative impact
- Medium negative impact
- Low negative impact
- Positive impact
- Unexpected changes

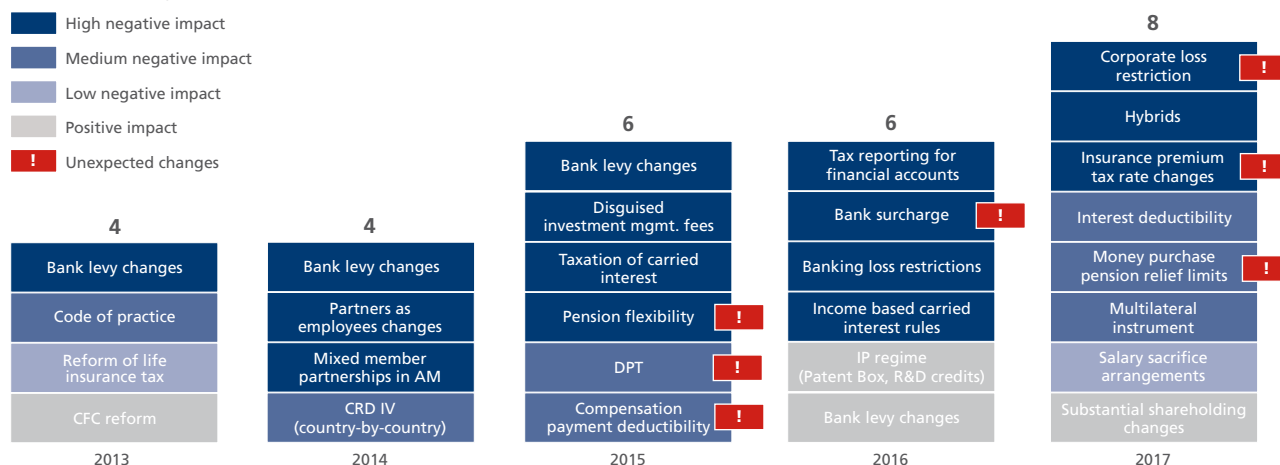
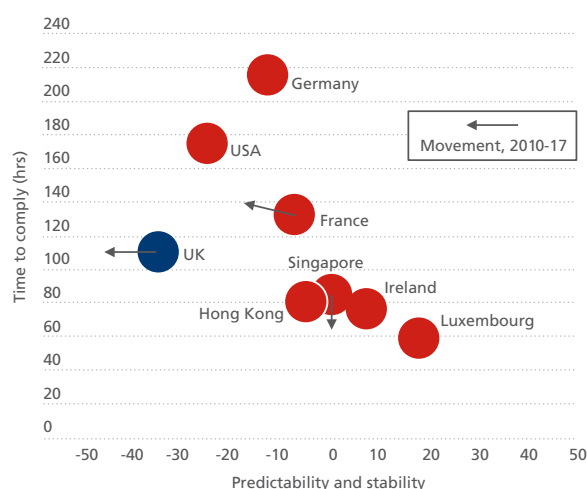


Figure 36: Predictability and stability of tax regime vs. time to comply from 2010-17

Source: PwC and World Tax Group 2017; Charles River Associates and City of London Corporation 2011, PwC's Strategy& analysis



5. UK digital and physical infrastructure is lagging behind peers

The existing speed and availability of broadband and 4G in the UK, both in urban centres and on-the-go, lags behind most other leading financial centres. This contributes to lower workforce productivity and impedes innovation. It also particularly impedes the growth and attractiveness of the UK FinTech sector, for which digital infrastructure is a critical enabler.

Heathrow Airport has operated at close to capacity since 2003 (and is currently operating at 98% capacity). Other international airports in key financial centres, such as Frankfurt (66% capacity utilised), Paris (71%) and Amsterdam (62%), have spare capacity and will be able to provide more services to an increasing range of growth markets.⁴³

Figure 37: 4G availability and speed for selected countries, 2016

Source: Open Signal

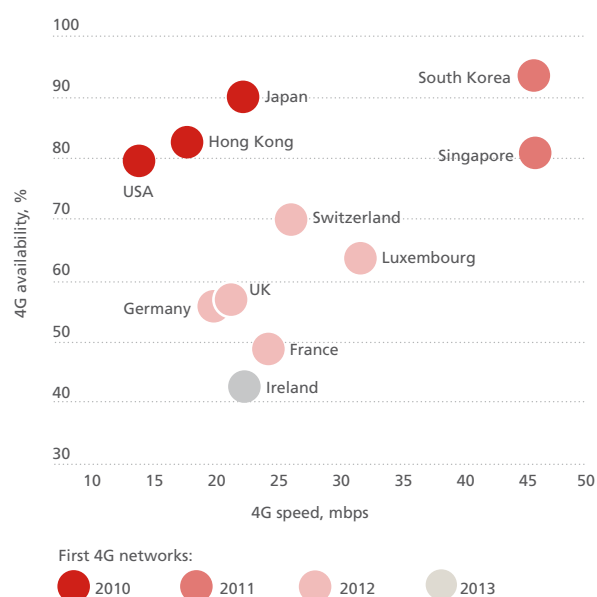


Figure 38: Airport connectivity, time to airport and capacity

Source: PwC's Strategy& analysis, Sky Scanner, FlightStats

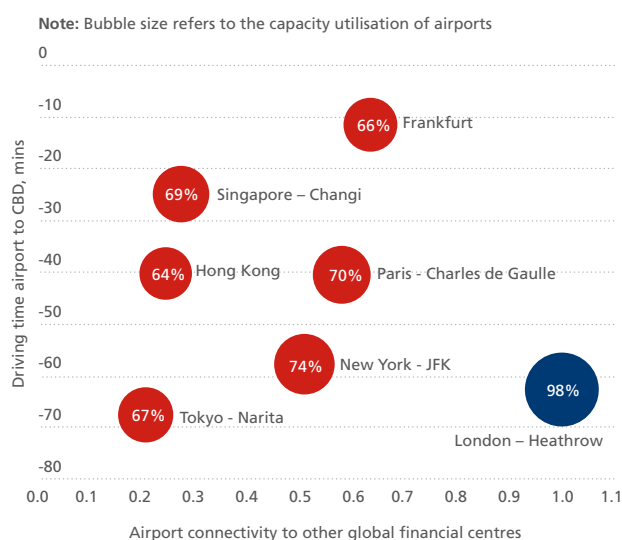
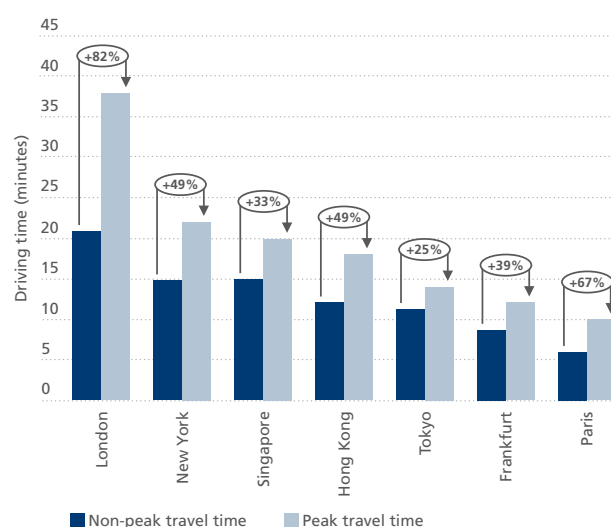


Figure 39: Average travel times by car from end-to-end of financial districts during peak and non-peak hours

Source: PwC's Strategy& analysis



UK cities also suffer from severe congestion, leading to long travel times. Public transport within London is at capacity, particularly at peak travel times, although new infrastructure initiatives, such as Crossrail, will help to alleviate this. Similarly, road networks within the city are regularly congested. For example, the time it takes to travel across the London financial district during peak hours is on average 82% higher than during off-peak hours, just under double the amount of the nearest financial centre. Between July and September 2016, the average daytime speed on main roads in central London was only 7.8mph, which is one of the lowest speeds recorded in the last decade.⁴⁴

This problem is not restricted to within the city centre. For example, the time it takes to travel from Heathrow Airport to the centre by car averages 70 minutes, compared to the 12 minutes and 25 minutes required to travel from the Frankfurt and Singapore financial districts respectively – a result of both proximity and congestion.⁴⁵

In addition, the necessary passport control process in many UK airports is lengthy, adding to the end-to-end journey time of business visitors travelling into the UK.

Not only does more time spent in traffic reduce workplace productivity, but high congestion also leads to increased air pollution and carbon dioxide emissions.

The road and rail connections between the UK's financial centres also require expansion and improvement. For example, the average train journey between Manchester and Cardiff takes almost four hours. Poor inter-city infrastructure makes inter-regional cooperation more difficult and exacerbates the industry's London-centricity.

DIGITAL AND DEMOGRAPHIC TRENDS WILL RESHAPE THE INDUSTRY

A number of major global trends have been identified that will have substantial implications for the industry and financial service centres

Figure 40: Major global trends affecting the industry

Source: PwC's Strategy&



1. New technology is driving more demanding customers and employees

Increasing access to smartphones, an expectation of perfect information and ubiquitous connectivity are among the technological trends that are empowering customers and employees. Digital expectations are becoming more demanding and, so far, the financial services industry has been behind the curve in keeping pace with change. Customer expectations are being set in other industries, as real-time use of data becomes more accessible and transactions are increasingly frictionless. Companies such as Uber and Amazon illustrate the disruptive potential of these technologies.

The integrating role of technology has led to a convergence of industries, such as healthcare and insurance. Consumers are becoming more open to newer providers that offer technology-based platforms which

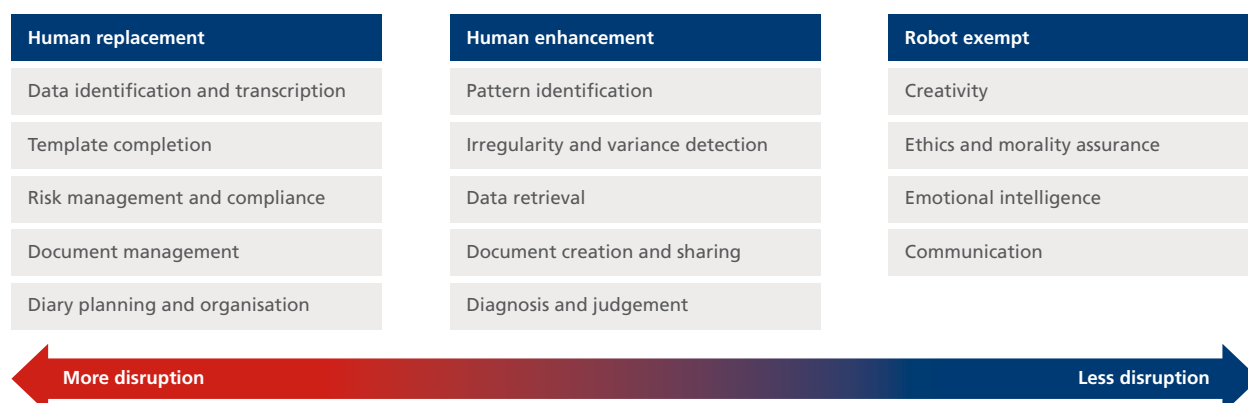
can better address their need for convenience, speed and agility. There is an expectation that this will continue, with regulations such as Open Banking and PSD2 (Payment Services Directive 2) opening new possibilities for retailers and technology companies to integrate their services with their customers' financial institutions.

Transformative and enabling technologies will continue to drive change in the industry and facilitate the creation of more innovative products, services and solutions for customers.

2. Technology will change the ways businesses deliver products, and open access to new competition from entrants

Technology is lowering barriers to entry and decreasing cost-to-serve. It enables providers to increase their access to customers, independent of their physical location.

Figure 41: The impact of AI on existing roles, activities and capabilities within financial and related professional services



Greater digital connectivity and greater specialisation is enabling disaggregation of value chains and reducing the importance of co-location.

The unbundling of universal banking and insurance, driven by transformative technologies, such as API-based⁴⁶ data sharing, will open up new markets, customer segments and offerings. Financial services will have the opportunity to extend its role in addressing customer needs, as well as facing the threat of other industries competing in more traditional spheres (e.g. Apple's movement into payments through ApplePay).

The rise of automation will have major impacts on the size and composition of the workforce. It may drive job losses, but it will also create new, higher-value jobs and opportunities. A recent PwC study suggested that AI may remove up to 30% of jobs in the UK.⁴⁷ Some manually intensive and repetitive tasks will be fully automated in the future. Other activities will see robots enhance but not replace the work of people – enabling us to keep doing what we're doing today, only better or faster. Finally, certain activities will remain 'robot exempt' – such as creativity, judgements on ethics and morality, communication. These changes will drive a rebalancing of the skills required for a changing world.

3. There will be a shift in the balance of economic power, growth and influence towards the East

While it took hundreds of thousands of years for the global population to grow to one bn people, it took only another c.200 years to grow by seven times. By early 2017 the global population had reached 7.5bn.⁴⁸ This increase has largely been driven by increasing numbers of people surviving to reproductive age, accompanied by increasing urbanisation and fertility rates. The global population is projected to continue expanding rapidly, with some estimates suggesting that the number of people on the planet will rise to 11bn in 2100. This large increase will be driven by developing economies, with 95% of the population growth by 2050 due to come from Asia and Africa.

In terms of economic value, Asia is projected to become the engine of global growth in the future, driven largely by countries such as China and India. Both the IMF and the World Bank now rate China as the world's largest

economy based on Purchasing Power Parity (PPP) and the size of China's economy is projected to accelerate away from the US, from a c.\$2tn advantage today, to a c.\$25tn advantage by 2050. Similarly, India is predicted to overtake the US as the second largest global economy by 2040.

Figure 42: Global population 1950-205 in billions

Source: PwC; Population Reference Bureau: World Population Data Sheet

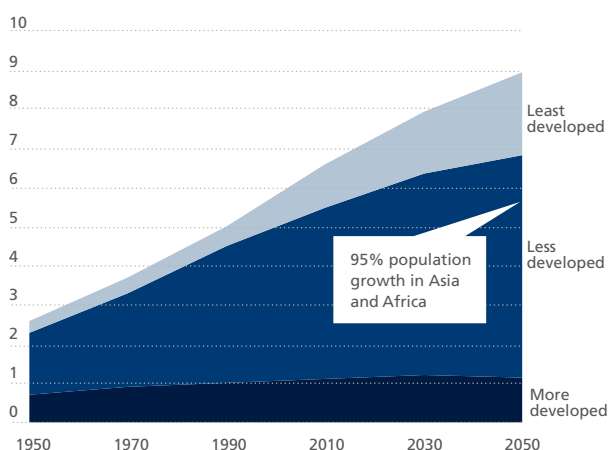
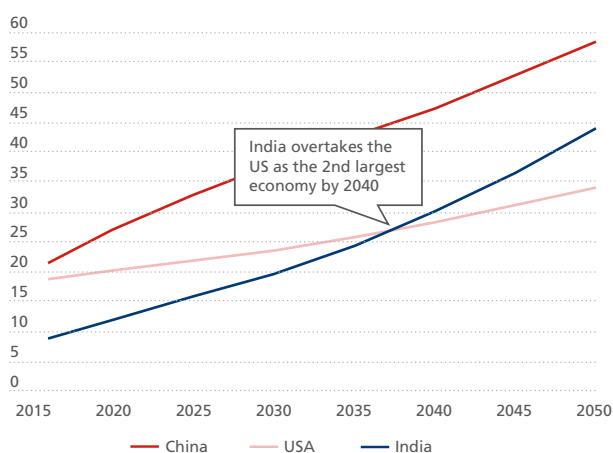


Figure 43: GDP in PPP terms in dollars and trillions

Source: PwC The World in 2050



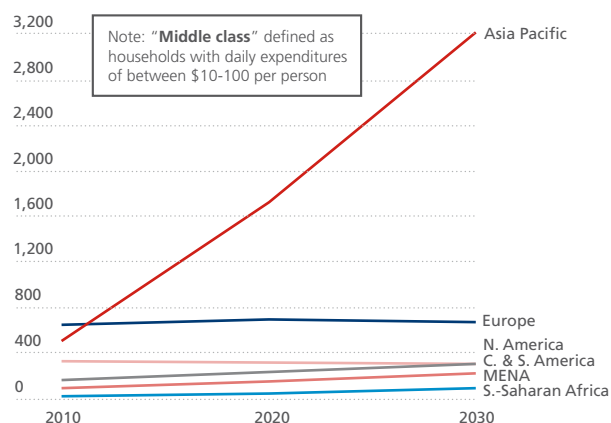
This will lead to a booming middle-class in the region – households with daily expenditures of between \$10-\$100 per person in today's terms. In the past 200 years, the world has seen two great middle-class expansions and we

are currently living through the third. The 19th century industrial revolution started the first expansion, creating a large American and Western European middle-class which grew, alongside Japan, after the Second World War with the second expansion. The third wave of middle-class growth is now happening in some emerging markets, particularly in Asia and Africa.

The Asian middle-class population alone will increase six-fold by 2030 to over three bn, from 0.5 bn today. Over the same period, the middle-class population in Europe will grow at only 2%, while North America will see a decline of 5%. By 2030, it is estimated that Asia will represent 66% of the global middle-class population and 59% of middle-class consumption.⁴⁹

Figure 44: Middle-class population by region in millions

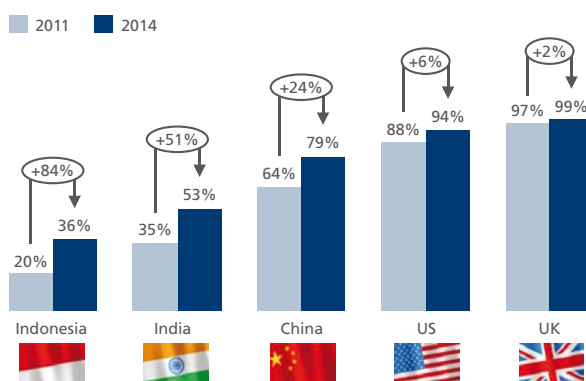
Source: UHY International



History suggests that those in the middle class accumulate capital, both physical (e.g. equipment or housing) and human (e.g. education or health) and help drive consumption and domestic demand for products. Against this backdrop of a rapidly growing middle class, Asian countries are seeing an increase in levels of financial inclusion and demand for more sophisticated financial products and services.

Figure 45: Percentage of population over 15 with a bank account

Source: World Bank global financial inclusion database



The growing global population is also expected to have an impact on the climate. The risk that continued increases in global temperatures may cause irreversible damage, exacerbated further by growing populations, underscores the importance of green projects.

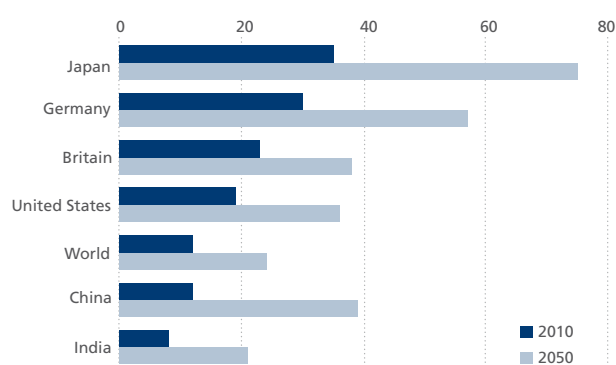
4. Increased longevity, growing state-funding challenges and a growing pension crisis will have a significant impact on developed centres

During the 20th century, life expectancy rose dramatically amongst the world's wealthiest populations from around 50 years to over 75 years.⁵⁰ This was driven by factors such as improvements in medicine, nutrition and public health, which continue to improve life expectancy today.

These continued increases in longevity and life expectancy will mean that the old-age dependency ratio, which measures the number of elderly people as a share of those of working age, is likely to rise sharply in most countries over the next 35 years. Japan will go from the already highest position today of 35% to nearly 75% by 2050, while in Britain it will increase from 23% to 38%. Some emerging and niche markets are facing demographic challenges of a similar magnitude, for example China's old-age dependency ratio is forecast to rise from 12% to 39% by 2050.

Figure 46: People aged 65 and over as % of labour force (aged 15-64)

Source: OECD



In the UK, the total pension deficit of UK corporate defined benefit pension schemes is estimated to be in the region of £510bn.⁵¹ Increased longevity and an ageing population is widening the gap between the cost of funding retirement and existing savings, creating a 'pensions timebomb'. Studies have found that the UK population expect and wish to enjoy a long retirement but are not saving enough of their own cash to support themselves in old age. Additionally, the costs associated with treating age-related illnesses are increasing as more people are needing prolonged medical attention.

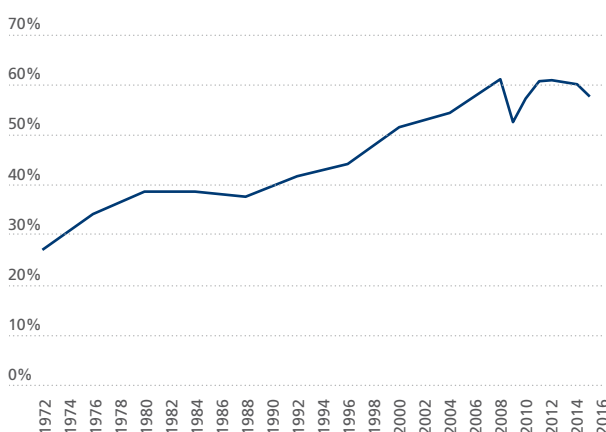
5. There is increasing tension between globalisation and de-globalisation

The latter part of the 20th century was defined by globalisation, which saw world trade as a proportion of the global GDP double between 1970 and 2000. Technology continues, in effect, to compress space and time: accelerating flows of information, data and knowledge, and enabling individuals to communicate and collaborate over great distances, instantly.

However, there has been a counter-trend of de-globalisation driven, in part, by a rise in nationalistic sentiment and policies. Restrictive immigration policies are becoming commonplace, while protectionist trade policies are being adopted. For example, the US's withdrawal from the Trans-Pacific Partnership and China's 'Made in China 2025' initiative restricts the provision of certain services by foreign companies.

Figure 47: World trade as a percentage of global GDP

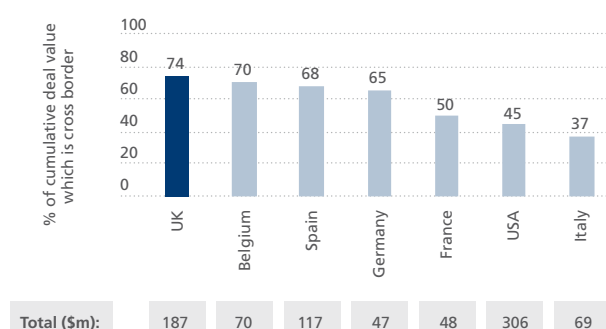
Source: The World Bank



Since the financial crisis, national regulators have taken steps including the ring-fencing of capital and liquidity and introducing structural reforms such as holding company requirements, which have contributed to the fragmentation of global capital markets and a stagnation in global trade flows.

Figure 48: International divestments as a proportion of total divestments since 2007

Source: TheCityUK, Dealogic



Regulatory changes may also have contributed to the trend of global banks divesting. UK banks have led the trend in retreating towards core markets, with international divestments making up a larger share of their total divestments than banks in any other country between 2007 and 2015.

Brexit

A critical catalyst for change exemplifying the tension between globalisation and de-globalisation

The impact of Brexit on the industry is highly dependent on the nature of the negotiated exit from the EU

Article 50 was triggered in March 2017, officially beginning the process of the UK leaving the European Union. This provides a two-year timeframe for negotiations to take place that will determine the future of the UK's relationship with the EU.

Brexit will have an impact on the industry, but the exact nature is highly dependent on the regulatory outcomes and levels of market access agreed during the negotiation period. TheCityUK has consistently called for a bespoke UK-EU deal that delivers mutual market access, based on mutual recognition and regulatory cooperation, and continued mutual access to talent with both a bridging and an adaptation period to enable a smooth and orderly exit.

While there are clear benefits to the UK and the EU in preserving the UK's ability to act as a strong financial hub for Europe, a range of outcomes is possible, with potential to impact business lines differently.

Regardless of outcome, Brexit is a catalyst for the UK and the industry to recalibrate its international positioning

The UK is the financial services capital of Europe. It is in the mutual interests of both the UK and the EU27 that this should continue, facilitated by ongoing market access as close as possible to the current terms of trade. The act of leaving the EU has enabled the UK to take a fresh look at opportunities afforded by trade and investment with the rest of the world, in developed as well as emerging and niche economies. Given global shifts in economic power and influence, it is timely to review

and recalibrate the UK's international positioning, policy and influence, and to strike deals with new trade and investment partners closely matched to UK interests.

Brexit should also provide the UK with a greater ability to influence multiple factors that determine international attractiveness. Those most widely cited include talent, where stronger control of borders should allow the UK to determine the mix of skills and number of people to be brought into the country to complement local resources; taxation, where Brexit provides an opportunity for a comprehensive review of the tax system to ensure the UK remains a competitive place for people, business and investment (although whether the UK remains subject to competition rules may depend on the terms of any exit agreement); and regulation, where the UK can tailor an appropriately strong and proportionate environment, while continuing to shape international regulatory standards.

Brexit poses real challenges for the industry, with the risk that short-term uncertainty could lead to more significant long term impacts

While the outcome is uncertain, there is a general expectation that the UK may lose some access to the European Single Market, and that as a result businesses would have to relocate parts of their UK activity to EU locations in order to continue to have access. In the short term firms are preparing for this eventuality, with small moves now being initiated into EU locations. Firms are more likely to shift towards various European locations where they have an existing presence (e.g. Paris, Dublin, or Frankfurt) rather than all moving to one alternative hub. This is due to the fact that most European centres do not currently have the depth of talent or capital pools, nor the infrastructure to maintain a financial ecosystem the size of London's. This fragmentation would not benefit the broader European economy, nor competitiveness.

In the longer term, some firms may relocate to the EU to increase proximity to the EU market and its institutions. Bigger location decisions may be triggered as part of standard business reviews, for example, when real estate leases expire; or when the cost of having to hold

additional capital in multiple locations becomes increasingly uneconomical. Shifts out of the UK may gradually erode the 'cluster effect' of the financial ecosystem, with the threat of a tipping point in the ecosystem being reached at some stage in the future.

However, there is, more of a risk that other leading centres, such as New York and Singapore, may benefit from relocation of business as firms may decide to move selected global activities currently undertaken in London to centres that have an existing strength in these areas. Brexit may also reduce access to skills from the EU and deter talented individuals aiming to work in an internationally-oriented and diverse global centre. It is also likely that early-stage businesses, including those in the UK FinTech sector will lose access to European Investment Fund capital, further exacerbating their funding challenges.

These major trends present key implications for international financial services centres:

1. International financial centres will need to provide products and services relevant to developed, emerging and niche markets.
2. Financial centres will need to innovate to provide appropriate products that reflect changing demographics and needs (e.g. long-term care solutions for the ageing population, green finance).
3. Financial services will continue to be highly regulated globally compared to other industries; competing financial centres may increasingly use their regulatory and tax regimes to influence relative attractiveness.
4. International financial centres have the opportunity to anticipate and respond to new and more demanding customer needs, typically driven by new technology.
5. There will be a change in the type of talent required, with a need for depth in digital skills such as data analytics and cyber security.
6. There will be greater challenges in attracting and retaining cross-border talent as immigration policies become more restrictive.
7. Technology will transform ways of working, resulting in a different working habits and increasing the ability to carry out related activities from different locations.

COMPETITION IS INTENSIFYING IN A CHANGING LANDSCAPE

London's position as a leading financial centre will continue to be challenged by both traditional international and European centres, centres in high-growth markets and specialist centres

The landscape of international financial centres has changed over the last decade and competition is intensifying

London has long maintained a position as the most competitive financial centre. Indeed, the Global Financial Centre Index (GFCI) Index has ranked London as the most competitive financial centre globally for nine out of the last ten years.

However, competition has shifted over that period. While London and New York have maintained stable positions as the most competitive financial centres, other global competitors, including Singapore, Hong Kong and Tokyo, have rapidly closed the gap.

Key European centres, while also converging towards the leading positions of London and New York, remain further behind. The greatest improvement over the period has been seen in high-growth and specialist centres, with San Francisco and Tel Aviv developing as specialist technology-driven centres and Shanghai and Mumbai serving rapidly expanding domestic and regional markets.

Other financial centres are adopting coherent strategies and developing fast. The UK cannot afford to stand still.

Figure 50: Global Financial Centre Index

Source: Global Financial Centres Index (Z/Yen) 2007 – 2017

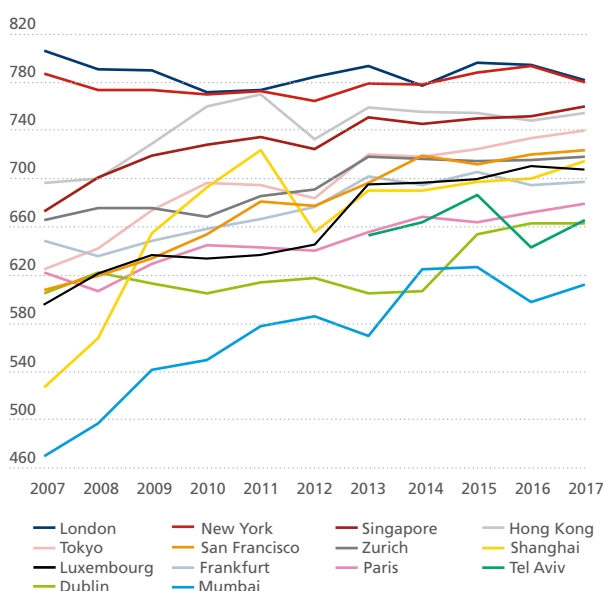















Figure 49: London's key competitors

Leading financial centres	Key European centres	High growth centres	Specialist centres
 New York City	 Paris	 Shanghai	 San Francisco
 Singapore	 Frankfurt	 Mumbai	 Tel Aviv
 Hong Kong	 Zurich		
 Tokyo	 Dublin		
	 Luxembourg		

London's leading global competitors overall are characterised by a broad financial services offering, access to highly skilled people and large local markets

New York

New York is a global leader in capital markets, with a huge and sophisticated domestic market that has the largest volume of banking assets. New York hosts the world's largest exchanges and is a leading centre for dollar trading.

New York has a large, developed financial ecosystem, hosting the deepest capital and liquidity pools in the world, with world leading talent. However, the US has a fragmented regulatory system impacting predictability. High rates and multiple levels of tax create complexity for individuals and businesses.

New York is likely to remain a hugely important centre. The future direction may be impacted by any increase in protectionism and the implications for talent attraction and retention. An example of this from an immigration perspective is the recent changes to the H1B visa, which will result in far greater scrutiny of applications for these visas, commonly used by the tech sector. However, more business-friendly policies may influence the US regulatory and tax regimes and result in New York becoming significantly more attractive. New York based banks are likely to benefit from moves out of London and increasing inefficiency in Europe.

Singapore

Singapore is the region's largest centre for foreign exchange and commodity trading. Although there is only a small domestic market, it is a growing wealth management hub with access to regional and global investment. It is the financial hub of ASEAN integration and a key capital markets centre for financing Asia-Pacific growth.

Singapore benefits from economic stability and a skilled, English-speaking workforce and a well-respected regulator that is working hard to foster FinTech and innovation. There is a robust and transparent legal system with a

relatively simple tax regime and competitive corporate, personal and VAT taxes. These complement its overall growth strategy as a financial services hub. However, a recent increasing focus on developing home-grown talent has led to the introduction of labour market testing as part of the work permit process for new hires, making importing talent more challenging.

Singapore is likely to face increasing competition into the future, from Hong Kong and emerging Asian hubs (e.g. Shanghai), but will continue to build on its existing strengths to attract international business.

Hong Kong

Hong Kong is a global hub linking eastern and western markets, which attracts international clients seeking access to China and globally focused Chinese companies, offsetting the relatively small domestic market.

Hong Kong has a leading position in equity funding and is the premier asset management hub in Asia Pacific. It has an established and competent regulatory framework which is seen as innovation friendly. It also offers a relatively simple tax regime, the competitiveness of which is a key factor in policy-making. It has highly competitive personal and corporate tax rates with no VAT regime, which act as key incentives for businesses and staff, although the cost of housing is consistently ranked as one of the most expensive in the world.

The shifting of economic power towards Asia and the rise of the middle class will help to drive increased opportunity, but there is likely to be increased competition from global hubs seeking to take advantage of Asian growth. The possibility that Hong Kong will be influenced by Chinese factors in shaping regulations and policies (including tax), the huge scale of the Chinese FinTech sector, and the projected rise of Shanghai as a financial centre are likely to erode some of Hong Kong's existing strengths.

Leading financial centres



New York City



Singapore



Hong Kong



Tokyo

Tokyo

Tokyo has a stable political environment and an established legal system. Japan boasts a highly technologically skilled workforce, with particular expertise in technologies including AI and robotics.

This is despite Tokyo's FinTech sector being significantly smaller than Singapore's and China's. The regulatory and tax environments are appropriate for serving the domestic market, but less suited to international businesses. The government's speed of implementing new policies is also slow.

There is likely to be continued focus on serving the large domestic market, although steps are being taken to reinvigorate international activity (e.g. addressing high rates of tax for individuals, creating a more open regulatory regime) and develop the FinTech sector. However, Tokyo will face increased regional competition in from Hong Kong, Singapore and Shanghai which will also seek to position themselves as the leading Asian financial hub.

London's European competitors tend to have a strong regional offering and continue to benefit from the free movement of people, but they have a limited global presence

Paris

Paris has traditionally had a greater focus on domestic banking. It is also developing a leading position in investment management and corporate bond issuance within Europe.

France's regulatory authorities are attempting to become more responsive but are not perceived to be as market (e.g. financial transaction tax) or innovation-friendly as some other regulators. The difficulty of interaction with the tax authorities, high corporate and personal tax rates, restrictive labour laws and limited use of English – compared to other leading centres – are holding back potential progress. Paris offers rich and diverse cultural and entertainment options.

It is also attempting to pivot from a domestic market focus to become a more international centre. It is taking active steps to position itself as an alternative to London through better access to the EU, initiatives to attract financial and technology talent as well as offering tax incentives subject to conditions (e.g. employees relocating to France can apply to have their personal income tax basis reduced up to 50% on both employment and passive income).

Frankfurt

Frankfurt is a stable European financial hub, home to the European Central Bank (ECB) and Bundesbank, with access to a strong and sophisticated, albeit fragmented, domestic market. Frankfurt has only a limited cluster effect with government and FinTech both centred in Berlin.

German authorities and regulators are seen as predictable, but not particularly flexible or innovation-friendly. There are restrictive labour laws and high taxes. Like Paris, there is a requirement to conform to EU directives limiting the ability to make significant changes. Frankfurt has less cultural appeal than London or Paris, although the lower cost of living, low pollution and low crime compare favourably.

Frankfurt is repositioning itself as an alternative to London through better access to the European market and the common use of the English language. It is also exploring options to change strict worker protection rules.

Key European centres



Paris



Frankfurt



Zurich



Dublin



Luxembourg

Zurich

Zurich is a global centre for private banking and wealth management. It has a small domestic financial market but has attracted large inflows of international assets.

The regulators in Zurich are viewed as highly competent, with experience in a wide spectrum of financial services. Regulation on large banks is amongst the strictest in the world. Switzerland's relatively low corporate and personal tax rates act as key incentives, although a high cost of living impacts real wages. Recent immigration policies attempting to protect the local labour force threaten long-term access to global talent pools. Zurich benefits from a position built up over time as a leading wealth management centre, from its linguistic diversity (German, French and English are all widely spoken) and from the high quality of life.

Zurich's leading position in wealth management is being impacted by recent transparency rules and the domestic market is expected to see limited growth. Efforts to build innovation and FinTech capabilities offer an opportunity for developing new strengths but have so far had limited visible success.

Ireland

Dublin has a strong reputation in back-office fund management operations and certain insurance lines, but a less developed capital markets proposition. The domestic financial sector is large relative to the economy.

The use of the English language in business, law and regulation is attractive for both UK and US businesses. However, Ireland's financial sector has less breadth than other global financial centres and this is reflected in the current focus and capabilities of the regulator. The use of English law is a major attraction, as is the low corporate tax rate, the stability of the tax regime and the increased flexibility of labour laws compared to other European centres. Ireland's strong technology sector is also an advantage, supporting the FinTech ecosystem, and the industry, government and regulators work together in a strong and strategic partnership.

'Getting Ireland Brexit Ready' is a government programme positioning Dublin as the only other English-speaking country in the EU that can offer continuity. There is also a tax relief programme to support foreign companies in relocating staff.

Luxembourg

Luxembourg is a leading domicile for investment management, hosting the second largest investment fund market globally and one of Europe's largest private banking markets.

Luxembourg has benefited from long-running social and political stability, which has supported its development as an international financial hub. Its modern and continuously updated legal and regulatory frameworks have supported the development of specific sectors (e.g. alternative investment funds, venture capital funds and international pension funds). Luxembourg exhibits regular and close collaboration between the government, regulators and private sector, which has contributed to its success. The country also benefits from better transparency and predictability around tax and regulatory changes.

High growth and specialist centres have emerged and are increasingly gaining scale

Shanghai

As the financial centre of China, which is already one of the largest economies in the world, Shanghai has access to large domestic banking and insurance markets. Banking assets held in Shanghai are larger than those in Hong Kong, although capital markets remain relatively undeveloped. The city is also a hub for innovative FinTech businesses, which are among the largest globally.

There is currently limited access to other markets due to low levels of financial liberalisation. Restrictions on the trading of Renminbi mean financial market traders are based in other Asian centres. The rule of law and corporate governance frameworks are less developed than in major global centres. The fact that English is not currently widely spoken has some impact on attractiveness to businesses. Its FinTech sector has grown exponentially to one of the world's largest, serving customers excluded from or dissatisfied with the existing financial sector.

Shanghai is positioning itself to rival existing Asian hubs as a regional financial centre, as well as London and New York as an international hub. It is likely to liberalise financial markets, allow for a free-traded Renminbi and strengthen the rule of law and corporate governance.

Mumbai

Mumbai is positioned to serve a rapidly growing domestic market, and has a well-developed domestic stock market compared to other emerging markets. India's position as an important global services outsourcing hub attracts international business and firms.

Mumbai benefits from the expertise provided by returning Indian nationals, who have been employed globally in finance and technology firms. There are growing domestic professional and technical talent pools and recent government policies are increasing the attractiveness of the financial services industry to talent. The prevalence

of English in business is also more common compared to other emerging centres. However, multiple overlapping regulators have created a complex environment and questions remain over corruption and political interference in markets. The tax regime continues to be challenging due to disputes and a lengthy resolution process. However, efforts are being made by law makers to simplify and provide certainty in the tax regime. There also remain significant physical infrastructure challenges.

The government of India has set out an ambition to make Mumbai as competitive internationally as Dubai, Singapore and Hong Kong. To achieve this, Mumbai is likely to try to build on its relatively stable environment, geographic positioning allowing it to serve both markets in the east and west, and the growing domestic market.

San Francisco

San Francisco is a world-leading global technology and FinTech centre, with high-quality talent, venture capital firms and an entrepreneurial culture.

There is a world-leading technology workforce and unrivalled access to funding and investors, who have strong experience in venture capital investing. San Francisco offers well-developed infrastructure, global connectivity and a strong entrepreneurial culture, with investors, tech companies and academia contributing to a vibrant entrepreneurial community.

San Francisco will continue to be positioned as a world leader in start-ups and a leader in FinTechs, although it is not co-located with financial services in the way that London or New York are. It will continue to leverage strong digital infrastructure, access to skills and the strength of the regulator to attract talent from London and to compete with other centres (e.g. New York and Tel Aviv).

High growth centres



Shanghai



Mumbai

Specialist centres



San Francisco



Tel Aviv

Tel Aviv

Israel has the highest density of start-ups per capita in the world. Tel Aviv's global leadership in innovation and technology is driving emerging FinTech specialisms, particularly in cybersecurity, information security, AI and mobile innovation.

Israel benefits from world-leading tech talent, the development of which is encouraged through compulsory military training that is used to build cyber-defence

expertise. A new visa type, focusing on the Tech sector, has recently been introduced, further supporting the sector in attracting top talent. Close links to the US through the diaspora present an opportunity to tap into a large market, although the domestic market is small and the regional financial industry less developed than other continents.

Tel Aviv will continue to be a global innovation leader in technology, with further specialisms in high-frequency trading and hedge funds starting to develop. Tel Aviv will benefit from continued support from government initiatives promoting investment in the financial services sectors.

The UK can learn from examples where financial centres have lost prominence in the past

The examples of policy decisions made in the US during the 1960s and in Japan during the 1990s provide clear lessons for the UK. In both cases, inward-looking policies and restrictions on international organisations

led to a rapid decline in their relative attractiveness and a subsequent outflow in business – with other centres benefiting as a result.



Restrictive regulation and punitive foreign taxes led to the outflow of Eurodollars from New York to London in the 1960s

- Regulation Q limited interest payable on US deposits, increasing attractiveness of London and creation of Eurodollar market outside NY.
- American Equalisation Tax of 15% was levied on foreign securities.
- After the dollar was de-linked from gold in 1971, there was significant inflationary pressure in the US.
- Inflation led to interest rates being hiked by 20% in just three years.

- Large outflows of Eurodollars from New York to London led to growth in euro-currency market (from \$85bn in 1971 to \$4,000bn in 1988).
- Resulted in London becoming the world leading FX trading centre and international financial centre.

Source: Strategy& analysis, American University International Law Review



Inward focus and restrictive policies for international organisations led to the decline of the Japanese financial services industry from 1990s

- Japan was a large domestic market which had attracted international banks.
- Asset bubble crash forced domestic banks to recognise non performing loans (NPLs) and focus inwardly, creating intense competition.
- Punitive regulatory approach adopted.
- Tax regime discouraged top local and foreign talent (56% income and inheritance tax).
- Language, cultural and lifestyle barriers limited foreign banking operations.

- 97 down to 62 foreign banks (1997 – 2002).
- 131trn Yen to 82trn of foreign assets held by Japanese banks (1997 – 2002).
- Inability for some local banks to raise funds in the interbank market due to heightened risks.
- Consolidation of domestic financial institutions consumed resources and left little focus on innovation.

Source: ADB, New York Times

Lessons can also be learned from centres which have improved their position, such as Singapore, Dublin, Israel and Belfast

The UK can learn from a number of leading financial centres which have established their position following a significant and rapid period of growth. Indeed, the examples of Singapore, Dublin, Israel and Belfast all demonstrate the clear benefits from aligning key

stakeholders to a clear and coherent strategy, with constructive partnerships that support coordinated action by key stakeholders such as industry, government, regulators and educational institutions.



Singapore became a leading financial centre in Asia through focused development of the Asset Management sector

- Built attractive business environment:
 - Competitive tax and efficient regulatory environment
 - Use of English language and rule of law
 - Targeted immigration programmes and incentives
 - High quality infrastructure, focus on lifestyle factors.
- Pursued targeted, pro Asset Management policies
 - GIC funds made available for private management (\$335 billion)
 - No distribution tax, Capital Gains Tax.

- \$2,571bn assets under management in 2015, from \$18bn in 1990.
- Gained prominence to #3 in global financial centre index rankings, overtaking Zurich (2007) and Hong Kong (2017).
- Biggest hub for Lloyds insurance market outside London.

Source: Financier Worldwide, SWIFT Community, Business Times, GFCI



Ireland's growth of international financial services has been achieved through a targeted focus on funds administration, domestic strengths and a first class physical environment

- Small group of highly committed and relevant bodies including a Minister of State for Financial Services.
- Coherent approach from government, regulator and industry and targeting of specific areas of business targeted for growth:
 - Funds administration (Dublin now competes with Luxembourg)
 - Domestic strengths, e.g. aviation financing and leasing.
- Creation of a first class physical and supporting environment in the dockyards for financial services, e.g.:
 - Low cost, high capacity office space
 - Close proximity and ease of access to London
 - English legal system, flexible labour laws
 - Attractive tax rates.

- 60 to 40,000 FTE in international financial services in Dublin between 1987 and 2017 (including 20% growth 2009-12).
- 1.4trn to 4.1trn Euro Funds under Administration (2008-16).

Source: Financial Times, Strategy& interviews, IFS2020 – A strategy for Ireland's International Financial Services Sector 2015-2020



Israel's world-class tech sector has flourished through a coherent collaboration between military, education and government R&D and funding

- National security need around cyberwarfare and intelligence threat, created cyber intelligence unit.
- Elite talent pool identified and recruited through after school and military service programmes.
- Strong R&D investment (4.25% of GDP vs. 1.7% in UK).
- R&D helped to produce steady flow of new technology development and boosted by defence related research.
- Focus using military IP and monetising innovation through tech start-ups.

- 2010: 386 new start-ups (23% FinTech), raising \$1bn.
- 2015: 708 new start-ups (61% FinTech), raising \$4bn.

Source: OECD, Israeli Venture Capital Research Centre

Belfast has grown as a specialist hub for financial services through collaboration between the regulator, Invest Northern Ireland (NI) and Queen's University

- Core appeal to organisations driven by its suitability as a back office and specialist hub:
 - Lower cost, highly skilled and productive workforce
 - English language and common law
 - Connectivity to London.
- Proposition strengthened by incentives offered through collaboration of key stakeholders:
 - Queen's University developing targeted skills required
 - Investment support from Invest NI for relocation
 - Open regulatory communication and guidance.

- 2,500 – Citibank staff relocated by 2013 (centre of excellence opened in 2005).
- 500 First Derivatives staff in 2014.

Source: Strategy& analysis and interviews, Citibank First Derivatives

The increasing competitive intensity of the global market will threaten London's position as a leading international financial centre

The increasing competitive intensity of the global market and the successful execution of cohesive strategies by competing market participants is threatening to erode London's position as a leading international financial centre.

New York is well placed to sustain its lead position, while Hong Kong and Singapore are benefiting from the global shift in economic power from west to east.

European competitors pose a more limited threat; Paris, Frankfurt and Dublin are all well placed to capitalise on the opportunity posed by Brexit to attract business away from London, although this is likely to result in more fragmentation, rather than another centre emerging as a European international financial centre. Europe as a whole is likely to become less efficient, as economies of scale are reduced and firms have to comply with multiple legal and regulatory regimes and are required to hold capital in multiple jurisdictions.

Emerging high-growth and specialist centres meanwhile have advantages that will support them in capturing lead roles in key growth markets, i.e. Shanghai and Mumbai for Asian emerging market business; and San Francisco and Tel Aviv for FinTech.

Lessons from competitors that have gained or lost prominence provide clear guidance about the importance of a unified strategy, implemented in a coordinated way.

Actions taken by New York in the 1960s and Japan in the 1990s provide lessons about the danger of being complacent about an existing position, as a competitive advantage can evaporate quickly. They also point to the importance of openness to international business and talent.

The recent success of emerging, regional and specialist centres, including Singapore, Dublin, Belfast and Tel Aviv, evidence the critical importance of a cohesive strategy. Each ensured tax and regulatory regimes, infrastructure plans and domestic and international talent systems were focused in support of overall strategic positioning.

Against this changing and increasingly competitive landscape, coordinated action towards a cohesive strategy is critical if the UK is to maintain its leading position in a rapidly changing world.

THE WORLD IN 2025 WILL BE FUNDAMENTALLY DIFFERENT

Together, the changes in the UK business environment, the major global trends, and the increasingly competitive landscape will shape a fundamentally different world by 2025

In 2025 the industry will be highly digitised, controlling vast amounts of data. This will be accelerated by AI, to the Internet of Things, and accessing financial services on new social media and smart devices. Sophisticated analytics on this data will enable powerful personalisation, allowing firms to deliver highly targeted products and services.

The way in which firms deliver services will be transformed. There will be far greater fluidity and flexibility between ways of working, with a skills shift to data, digital and cyber, alongside more agile career models and working styles. Fewer people will perform manual, repetitive jobs due to robotics and automation, as standard decisions will be made using algorithms, AI and machine learning.

The competitive landscape will be characterised by significantly more innovation, driving fierce competition from unexpected sources. Application Programme Interfaces (APIs) will accelerate partnerships and more dynamic ecosystem interactions. Customers will be able to tailor their experience and effortlessly integrate services from multiple providers.

Information will be available in real time, independent of location, and decisions will be made near-instantaneously. While data will be shared far more widely, there will be an expectation of total security and control. Cyber security and data management will therefore be critically important.

Figure 51: A view of the industry in 2025: digitised and dynamic

Source: PwC's Strategy&



By 2025, ongoing population growth and the resultant shift of economic power and influence will already be reshaping the industry. There will be new sources of wealth as a result of state-sponsored capitalism and the emergence of the middle class in growing economies. This will trigger changes in capital flows.

Traditional patterns of people's lifecycles will be fundamentally altered, necessitating new products and assumptions. Individuals will choose to study, earn, borrow and save at different times during their lives. There will also be a shift from ownership- to usage-based consumption models.

There will be greater urgency around sustainability, which will present challenges for the industry and require rapid and profoundly different product and service offerings.

There will be increased emphasis on infrastructure funding, development finance and solutions to climate change.

Firms will increasingly be influenced by different values, with ethical factors and social responsibility valued more highly – both by a diverse workforce, and by shareholders. This will impact the way in which industry leaders' success is measured and rewarded.

Meanwhile, the dynamic between financial centres will become more complex, with intense competition for new sources of wealth and capital flows resulting in different trade and investment patterns. New alliances will emerge between centres, as competitors pursue scale and relevance to new markets.

Figure 52: A view of the industry in 2025: refocused and competitive

Source: PwC's Strategy&

New sources of wealth and capital flows <ul style="list-style-type: none"> • Relentless global population growth driving economic activity in the developing world. • State sponsored capitalism and emergence of middle class in developing economies creating major new sources of wealth. • Bulk of global capital flows moving from and to growth economies, particularly in Asia. 	Shifts in trade patterns and alliances <ul style="list-style-type: none"> • Shifting trade patterns between economic blocs. • Alliances between established financial centres in order to grow scale and reach. • Partnerships between clusters of established and emerging centres, to accelerate development and relevance while pursuing regulatory consistency. 	Aggressive competition between centres <ul style="list-style-type: none"> • Protectionism and nationalism in major economies impacting the flow of talent. • Regulation and tax used as powerful competitive levers by centres. • Energetic, coordinated efforts by centres to attract firms, with aggressive marketing and opportunistic deal-making.
Fundamentally different lifecycle assumptions <ul style="list-style-type: none"> • Macro-economic conditions, lifestyle choices and religion resulting in different consumer preferences and behaviours. • Altered fundamentals about when in their lives individuals study, earn and borrow and save. • A shift from ownership to usage-based consumption models. 	Shift in values influencing corporations and individuals <ul style="list-style-type: none"> • Generational shift with younger consumers and employees increasingly influenced by ethical factors. • Importance of social and corporate responsibility enforcing changes in senior accountabilities, performance management and remuneration. 	Acute sustainability challenges <ul style="list-style-type: none"> • Substantial infrastructure investment required to support rising living standards, particularly in emerging economies. • Climate change increasing the urgency and scale of investment into green and sustainability projects. • Greater emphasis on delivering development goals to reduce global inequality.

ACTION IS NEEDED BY INDUSTRY, GOVERNMENT AND REGULATORS TO ACHIEVE THE VISION

Achieving TheCityUK 2025 vision for the industry will require coordinated action from multiple industry stakeholders, primarily industry firms and bodies, government departments and financial industry regulators

The UK requires a coherent strategy to achieve the 2025 vision. It should build on existing strengths, respond to key issues and threats that the UK-based industry is facing, adapt to global digital and demographic changes that will reshape and transform the world, and anticipate the tightening competitive landscape. Implementing such a strategy is consistent with and complementary to the UK's Industrial Strategy (which the government is currently consulting on).

A set of recommendations are provided below that highlight how important elements of the vision can be achieved. These recommendations include specific, detailed actions that should be pursued, many of which can be initiated in the short term. They also provide longer term suggestions, and invite different stakeholder groups to work together to shape a practical way forward. Although the actions required will evolve as the global environment changes and progress is made, this set of recommendations should set the direction and offer a practical starting point to implement the strategy.

The recommendations address each of the main themes of the vision, and will require delivery by three stakeholder groups. Although there is usually a clear lead, success in achieving each recommendation will often depend on actions taken by multiple different entities and upon strong collaboration.

Recommendations for the **industry**, here meaning both firms from across the UK-based industry and the industry bodies that represent them. These include a focus on rebuilding trust, creating new products that address unmet societal needs, enhancing trade and investment with international markets, and securing access to the best talent whether from home or abroad.

The government, including various **UK government** departments (both national and local) and wider public sector organisations, should build a stronger partnership between stakeholder groups, and create an effective environment for the industry to prosper. This would include changes to the visa system, FinTech funding incentives, digital infrastructure and the tax regime.

Finally, **regulators**, those UK agencies involved in the supervision and definition of regulation for the industry, should drive a strong, proportionate and internationally attractive regime, while applying judgement-based decision making.

BUILD CLOSE, STRATEGIC PARTNERSHIP BETWEEN GOVERNMENT, INDUSTRY AND REGULATORS

1. As a government sponsor for the financial services industry, HM Treasury (HMT) needs to convene regular discussions between different government departments and the industry, with independent involvement from regulators, to align on actions to enhance the competitiveness of the industry as a whole.



Government-led

Lessons from other countries demonstrate the importance of coordinated action among all key stakeholders to achieve a financial centre's strategic objectives. The industry in the UK has a complex stakeholder environment and currently lacks a unifying strategy. Effective, ongoing collaboration between various stakeholders will be critical to successfully implementing the 2025 strategy and is consistent with the 'open door' challenge of the government's Industrial Strategy (which is under consultation).

- HMT, building on its current responsibilities, should play a **visible sponsorship role** for the industry within government.
- HMT should initiate and **lead regular discussions between key stakeholders** to align on industry direction, reinforce strategy and make key decisions aiming to maintain the competitiveness of the industry. Involved stakeholders should include industry firms and bodies, government departments (including the Home Office, MoJ, DIT, DCMS, DFID, BEIS, Dexu, FCO); and regulators as observers.
- The industry should ensure that its strategy remains consistent and complementary with the UK's broader Industrial Strategy, while still addressing the **government's 'open door' challenge** to identify ways in which regulation can be changed and exports and innovation supported to assist the industry.

2. National, regional and local leaders to define positioning of regional and national financial centres, developing the planning skills and infrastructure required and stimulating regional coordination between local government and firms.



Government-led

The UK has an opportunity to further develop regional specialisms in cities outside London. These specialist and domestic financial centres will help to create jobs, improve income equality and support the regional economy.

- **National, regional and local leaders in key financial centres should define their target positioning, develop plans to achieve this by driving regional coordination** between financial industry firms, local specialist academic institutions, local government and regulators.
- National, regional and local leaders should develop infrastructure strategies for their regions, particularly identifying required expansion of digital infrastructure.
- Domestic and regional centres must coordinate with London and each other to provide a coherent response to international competition and major trends.

- Regulators should explore the potential for **opening more regional and national offices** (i.e. outside London and Edinburgh) to support the regional and national strategy.
- The government and the ONS should **improve regional and national economic data availability**, in particular removing legal and administrative barriers to the greater use of public-sector administrative data for statistical purposes.
- National, regional and local policymakers should **provide greater certainty and transparency** to the industry through policy roadmaps and early engagement during the policy making process.

BECOME A TRUSTED INDUSTRY DOING WHAT IS RIGHT FOR CUSTOMERS AND CLIENTS

3. Boards and firms to take ownership for prioritising customer centric approach.



Industry-led

Transforming to become truly customer-centric organisations represents a significant challenge for firms. Developing customer-focused strategies and associated capabilities will ensure that firms enhance their relevance and help them deliver more sustainable value for shareholders.

- Firms in the industry should define **customer-focused strategies**, and strive to deliver transparent and easy-to-understand products which are priced fairly and offer equivalent benefits to new and existing customers (e.g. simpler insurance products). Firms must embrace the potential of digitisation to deliver higher customer satisfaction while maintaining reasonable returns for shareholders.
- The boards of firms must be made accountable for prioritising customers' interests and board members must be answerable to regulators for conduct. Firms should **consider the use of a specific director role** focused on conduct.
- Firms should adapt performance management and remuneration systems to **link employee incentives to positive customer outcomes** in addition to financial metrics like revenue or profitability.

4. Agree on more ethical and customer-centric standards of behaviour and cultural norms.



Industry-led

The financial services sector is among the least trusted industries in the UK and has struggled to repair trust after the financial crisis. Rebuilding the trust of customers and potential employees is a prerequisite to effective stakeholder partnership, important to prevent further loss of business to non-traditional financial services market participants and necessary to ensure sustainable access to top talent.

- In the short term, the sector must agree, adhere to and publicise **higher standards of behaviour** which will bring an increased focus on doing what is right for the customer while balancing the needs of shareholders.

- In addition, the sector should build on the initial efforts of the Banking Standards Board and the FCA's Senior Manager Regime to **develop mechanisms**, both formal and informal (e.g. membership of accredited bodies, 'peer-pressure'), to ensure individuals and firms within the sector take responsibility for complying with these self-imposed standards.
- The sector should **identify lessons from other industries** when developing mechanisms to embed higher standards of behaviour, for example, considering the use of accreditation bodies, with membership a prerequisite for firms and individuals to operate.

5. Embrace innovation and accelerate digitisation, with firms disrupting their own business models and transforming in order to benefit customers.



Industry-led

The lack of innovation and trust in the financial industry has prevented firms from building the same levels of customer engagement and advocacy as achieved in other more digitised industries. Significantly greater choice of channels and transformation of business models will help firms to address changing customer needs. This will improve customer trust, advocacy and loyalty.

- Firms in the industry should accelerate efforts to **apply digital technologies** to improve customer-centricity and outcomes by offering enhanced functionality and usability through mobile channels; drive greater efficiency using automation, AI and blockchain; and enable digital community engagement, support and advice.
- The industry should **better collaborate across firms, including with FinTech start-ups and other potential disruptors**. Incumbents can seek to combine their deep understanding of financial and related professional services and existing customer bases, with the data, capabilities and more innovative cultures of new entrants.
- Firms must identify and **develop key capabilities required to build customer centric businesses**, in particular those around customer insight and innovation, customer data management and stakeholder and reputational management.



Industry-led

6. Demonstrably listen to and address public and customer concerns.

A recent 'Citizen's Jury' conducted by Britain Thinks and PwC confirmed the major challenges that the industry faces in regaining customer trust, highlighting past scandals and poor engagement as important reasons for this distrust. Addressing these issues will help the industry demonstrate commitment to rebuilding trust and willingness to respond to public concerns.

- Firms within the industry should take **important tactical steps** to rebuild trust, in particular: improving feedback loops between firms and customers with visible leadership from senior executives; increasing the variety of industry spokespeople, and identifying more junior spokespeople; extending more offers for loyal customers, not just for new customers; and increasing transparency and reducing jargon when communicating with customers.
- The industry should conduct **regular, frank and fair self-assessments** of its performance and contribution to society, seeking input from consumers and communicating the findings to the public; and implement **important strategic initiatives**, in particular promoting the Financial Ombudsman Service as a mechanism for arbitration between customers and the industry.

ENSURE PRODUCTS AND SERVICES ADDRESS KEY SOCIETAL NEEDS

7. Address important unmet societal needs.

Industry-led



There are gaps in the products and services currently provided by the industry. Closing them presents an opportunity for the industry to help address problems in society, rebuild customer trust and profitably serve new areas of opportunity. This is aligned with the intent of the UK's Industrial Strategy which the government is currently consulting on: that industries become more innovative and leverage the UK's deep scientific and research capabilities to deliver products and services that meet customer needs.

- The industry must identify unmet and altered social needs due to changing lifecycle and demographic profiles, and prioritise meeting these needs. Some examples of unmet needs include: **the long-term savings gap**; the **financial advice gap**; and **financial exclusion**.
- The industry should continue innovating in order to develop better products that meet changing customer needs and lifestyles. This could include developing new standard loan repayment models that **incorporate auto-switches into appropriate and favourable savings plans**, following full repayment; accelerating the development of **robo-advice and peer-advice** products; **using big data** to develop more sophisticated profiles of SMEs and support better lending decisions.
- The industry must continually consider the potential positive and negative **impacts of new technologies and products on financial inclusion**, for example, pre-paid cards, mobile payments, big data-enabled customer segmentation.
- The government and regulators should support and accelerate product innovation that addresses societal and customer needs by **prioritising access to government grant funding and continuing to allow and increase regulatory flexibility for firms innovating in this space**, for example via continued expansion of 'sandboxes'.

8. Develop the industry's cyber resilience capabilities to better protect the data and digital assets of customers and firms.



Industry-led

The threat from cyber-crime and the need to protect personal and corporate data is growing rapidly as the world shifts to a digital economy and the primacy of digital assets increases. Developing products and services to protect against cyber risk will help keep customers safe. In addition, it will present opportunity for the growth of new insurance lines and create a range of new consulting, legal and financial technology opportunities.

- Boards and executives need to have direct visibility and accountability for managing cyber risks ensuring that **customers have full control over how their data is used** and distributed, in line with General Data Protection Regulation (GDPR), which comes into force on 25 May 2018. Additionally, they should initiate and oversee the provision of products and services that help customers **protect and secure their data and digital identities**.

- The industry should develop a **cyber-talent ecosystem** between the data-rich Financial Industry, Academic Centres of Excellence in Cyber Security Research (ACE-CSRs), the National Cyber Security Centre (NCSC), Government Communication Headquarters (GCHQ) and FinTechs to identify and develop cyber talent.
- The industry and government should develop **early-stage career development programmes** to help identify future cyber talent and ensure it is appropriately channelled.
- The Industry and government should **market the UK as a cyber centre of excellence internationally**. Regulators should establish a global leadership position in cyber product regulation.
- The government should **build awareness of cyber risks** by promoting the reporting of cyber breaches and encouraging adoption of cyber standards in credit and investment decisions. **Financial support for cyber security start-ups**, as outlined in the National Cyber Security Strategy, should also be prioritised.

9. Help channel investment towards societal challenges by further developing new products and markets.

Industry-led



Major global changes, such as climate change, are driving increased demand for efficient markets to channel investment into new areas. Improving the functioning of markets in these areas will address critical needs and help the industry maintain its long-term profitability.

- The industry must address unsolved **global challenges** and **develop products and markets** that help solve these issues. For example, the industry should continue developing green finance products and building effective markets for infrastructure investment.
- The industry must continue developing and adapting products to ensure they are effective, e.g. **aggregating green projects into sufficiently large, investable products**; and developing infrastructure bonds to minimise political risks and maximise the potential for diversification.
- The industry must enable efficient market activity and reduce the barriers to participation, for example by **establishing consistent reporting standards** or creating international databases in new product areas.
- The industry must work with government and regulators to identify existing regulatory impediments to the efficient functioning of markets, (e.g. by continuing to **reconsider the appropriateness of increased capital requirements** for investments in infrastructure projects by insurance funds under Solvency II), and should identify ways to make regulation appropriate and supportive for new product areas, (e.g. by integrating an **environmental consideration into capital weighting requirements**).

10. Construct regulation that supports new products and business areas and helps the industry to address societal challenges and gaps in market provision.



Regulator-led

The UK regulators have taken important steps to encourage innovation but further action is needed to ensure the regime balances the imperative to fully support and promote innovation with the need to protect customers. Doing so will promote competition, and help the industry to address societal challenges that matter to consumers.

- **Regulators must maintain close dialogue** with firms that are driving innovation in product areas or seeking to address ineffective markets, and should seek ways to ensure they do not suffer inappropriate regulatory roadblocks (e.g. in infrastructure financing, financial advice gap, green finance).
- Regulators **must identify ways of increasing the availability of data**, which FinTechs can use to innovate, without sacrificing customer protection (as currently addressed within GDPR).

ENHANCED TRADE AND INVESTMENT WITH DEVELOPED, EMERGING AND NICHE MARKETS

11. Ensure closer collaboration between government departments and industry, including more proactive consultation and engagement, to promote the industry abroad.



Industry-led

The government's current approach to promoting the UK industry internationally could be better coordinated with the industry. Brexit presents an opportunity for the UK to develop independent international trade and investment policies as outlined in TheCityUK's submission on 'Future UK Trade and Investment Policy'. Greater emphasis on joint identification of opportunities will help increase trade and investment flows.

- The government should engage in a more proactive and coordinated way across departments (e.g. DIT, FCO, HMT, BEIS, MoJ) and with firms and industry bodies, to **jointly identify, plan and pursue opportunities** to strengthen international trade and investment through engagements with other markets. This should build on the work of and relationships developed by the Financial Services Trade and Investment Board (FSTIB).
- The industry should support the government's trade and investment efforts by **providing greater insight into the UK industry's strengths, capabilities and differentiating** features.
- **Additional industry champions should be appointed** within the government to enable closer coordination and support for the FCO's network of posts, to market the UK as an international financial centre and to underline the benefits of legal services and English law.

12. Forge stronger partnerships with developed markets based on bespoke trade and investment arrangements and mutual recognition of products and regulations.



Industry-led

Developed markets remain the key source of value to the UK industry. Maintaining strong relationships with countries in the EU, while strengthening links to other developed and emerging markets in the Americas, Asia Pacific, Eurasia, Africa and the Middle East will help to enhance international trade and investment with these centres and improve exports of UK financial and related professional services.

- The government should strive for a **bespoke UK-EU deal that delivers mutual market access** based on mutual recognition and regulatory cooperation. This should include the continued right to delegate the performance of key services, such as portfolio management, to third-country firms. There should be a **bridging period** to cover the time between when the UK exits the EU and when the new partnership is ratified, to avoid any damaging cliff-edge effects.
- The UK industry should explore potential for enhancing partnerships with other leading financial centres, for example, by **identifying specific opportunities to further share expertise or establish market infrastructure collaboration** to increase scale, reach and efficiency.
- Industry and government should collaborate to promote the UK as the centre for international business and cross-border deals, highlighting areas of differentiated expertise (e.g. regulators, legal, consulting, accounting, FinTech) and the clustering of firms and talent **that supports deals**.

13. Make the most of the UK's distinctive capabilities to grow trade and investment with and support development of emerging and niche markets.



Industry-led

The UK has an opportunity to position itself as a global leader in regulation and law. Helping other financial centres to develop and driving regulatory coherence towards UK standards will provide UK businesses with a competitive advantage and reduce the costs of doing business internationally.

- The industry and government should **promote the UK's distinct capabilities**, particularly in capital raising, structuring, advisory and legal and accounting services, as a means to position the UK as a leading hub for emerging markets business.
- The industry and government should identify international financial centres that are developing and offer potential value to the UK; and provide support in **establishing their regulatory and legal frameworks, forging stronger alignment and closer relationships** with the UK.
- The industry and regulators must continue to lead the **shaping of international standards and norms for regulation, legal and professional services**. This will help to increase the ease with which UK-based firms can export products and services globally.
- The industry should enhance and export capabilities in **infrastructure funding, development finance and the use of PPPs** in order to increase relevance and attract business from international markets.

ENSURE THE UK REMAINS A LEADING FINTECH AND INNOVATION CENTRE

14. Develop expertise in specific transformative technologies for financial services (e.g. blockchain, AI, quantum computing and the Internet of Things).



Industry-led

New disruptive technologies are emerging and their potential to transform business is expanding. Developing centres of excellence in technologies that will transform the future of financial and related professional services and wider business operations will help ensure the UK's continued competitiveness and provide great export and business opportunities for UK firms.

- Industry should make the case to have the financial industry included and prioritised within Innovate UK's **Digital Catapult**, which is tasked with developing these transformative technologies in the UK.
- The UK government should also direct portions of the **Robotics** and **AI grants** to support **financial services-specific research**. These technologies have the potential to address social problems in the UK, such as financial wellness and inclusion.



Government-led

15. Increase scale-up funding available to FinTechs.

There is a gap in financing available to UK FinTechs which is making it difficult for start-up firms to scale. Targeted measures to fill funding gaps will help support FinTech start-ups throughout their lifecycle and help them reach their full potential in terms of revenue, employees and tax receipts.

- The government should build on the Patient Capital Review and work with the industry to improve the availability of scale-up funding, by:
 - **Incentivising experienced venture capital investors** to establish large funds in the UK through higher investment caps on investment size of VC Trusts.
 - Make **cornerstone investments** into scale-up focused investment vehicles via the British Business Bank, Business Growth Fund and newly consolidated Local Authority Pension Funds.
 - Consider the case for **extension to the EIS limits** and **qualifying activities** based on expected economic outcomes and cost of the relief.

16. Continue the development of a regulatory environment that encourages innovation and provides international consistency that enables FinTechs to scale-up beyond domestic markets.



Regulator-led

While UK regulators have already made meaningful efforts to support the FinTech sector through programmes such as the regulatory sandbox, they have an important ongoing role to play in building and maintaining a regulatory regime that enables continuous innovation. Providing an innovation friendly environment will encourage new and established firms to experiment with new offerings. Furthermore, taking a leadership role in establishing global FinTech regulatory standards will help support the national and international scaling of UK FinTechs.

- Regulators should continue to **promote FinTech innovation** within the UK by maintaining an environment in which firms are able to trial new propositions.
- **UK regulators should remain at the forefront of global FinTech regulation**, and take a leading role in defining international standards. Regulators should strive to create international consistency that enables FinTechs to scale-up cross-border and target bigger markets.

ENSURE ACCESS TO DEEP POOLS OF THE BEST DOMESTIC AND GLOBAL TALENT

The quality of its people is one of the most important attributes of a financial centre, and in a world of increasing mobility there has to be a clear plan for ensuring that appropriate skills can be developed, attracted and retained. This will involve reform of the education system to ensure a sustainable pipeline of domestic talent, as well as changes to the immigration system to enable international recruitment to fill particular skills gaps.

17. Build stronger partnerships between the financial services industry and academic institutions to improve alignment on skills and focus.



Industry-led

There is currently less coordination and partnership between the industry and academic institutions on changing skills needs than in other industries. Building stronger partnerships with education providers will help ensure the industry has access to talent with relevant and practical skills, and will increase the desire of people to work in the industry.

- The industry should create an **industrial partnership between employers and educational institutions** to coordinate on skills development priorities. There are currently eight other industrial partnerships covering scientific and creative industries, which are partially funded by BEIS.
- The industry should **make funding available for research** at leading universities in order to steer the direction of research and develop relationships with institutions. The industry should support research in both established finance disciplines, as well as in wider areas that may have applications for the industry (e.g. data science, cutting-edge technologies, behavioural sciences).

- The industry should collaborate with educational institutions to jointly **develop practical, industry-taught modules** as part of courses of study at tertiary institutions. This will help ensure UK students have practical skills to help them compete in the global economy.
- Local and national government should create **regional and national university and industry alliances that collaborate on building local capabilities**. These regional and national alliances would work with the financial sector industrial partnership to implement national financial sector industrial policy at a local level.
- The introduction of the immigration skills charge from April 2017 will provide valuable **skills funding**. The industry should calculate its contribution by developing a coherent strategy on future skills requirements; the industry will be strongly placed to influence where and how this funding is targeted to meet the needs of the sector.

18. Develop more effective apprenticeships and increase hiring of school-leavers, making best use of the Apprenticeship Levy.



Industry-led

Apprenticeships are currently an under-used form of recruitment for the industry. Increasing the number of apprenticeships represents an opportunity for firms to attract and mould highly effective talent, increase loyalty among the workforce, and do so at a lower cost than traditional graduate recruitment.

- The industry and government should continue to **develop high-quality apprenticeship** schemes adapting their focus based on the industry's changing needs (e.g. for digital and risk professions). School and college leavers should be able to obtain Bachelor-level qualifications 'on the job', thereby appealing to workers from younger generations who do not wish to follow a traditional university education. This will help build greater loyalty between younger workers and employers.
- The industry and the government should **identify ways to better use the funds raised from the financial industry's** contribution to the apprenticeship levy in order to support an expansion of higher apprenticeships in financial and related professional services.
- The industry and government should work to achieve a **cultural shift in the perception of apprenticeships** among top school talent.

19. Develop practical and agile learning programmes to respond to ongoing and emerging skill shortages (e.g. AI, data analytics, cyber-security) and enable life-long learning.



Industry-led

The UK currently has a domestic digital talent gap caused in part by the existing education system which does not respond rapidly enough to emerging skills shortages, and is not geared for re-skilling and life-long learning. Developing new programmes for existing talent will ensure the continued employability of the national workforce, offer a greater pool of talent to FinTech and other digital firms, and reduce the reliance of these firms on costly foreign-born talent. This is consistent with the commitment via the UK Industrial Strategy (which the Government is currently consulting on) to addressing digital and wider STEM skills shortages.

- The **industry and UK government should encourage the development of a digital talent ecosystem and pipeline**, working with the technology sector, academic institutions and public sector security agencies to help identify and develop domestic digital talent early.
- Employers within the financial sector should work with **technology education accelerator programmes to offer agile learning programmes**. These could be conducted through short-term, part-time courses that upskill working professionals, thus ensuring emerging skills needs can be addressed through domestic talent.
- Government should improve alignment and integration between the multiple government authorities assessing and forecasting national skills shortages (e.g. UK Commission for Employment and Skills, and Migration Advisory Committee) to provide a **single, agile and authoritative source of information on national skills shortages**.

20. Improve the attractiveness of working in the financial and related professional services industry as a career choice to younger generations and talent from across the increasingly diverse work force.



Industry-led

The industry is facing increasing competition from other industries to attract top talent. Making financial and related professional services more attractive to young talent will ensure sustained access to a critical input for the industry.

- The industry should **adapt graduate programmes** to better meet the expectations of younger workers. Graduate programmes should be adapted to offer faster progression, greater travel options and more flexible ways of working.
- The industry should focus recruitment to reflect the priorities of workers from younger generations and diverse backgrounds by **emphasising use of technology, innovative and varied roles** and the opportunities for entrepreneurialism.

21. Adapt the current visa system and immigration criteria to ensure the industry has continued access to the right people and the ability to meet changing skills profiles.



Government-led

The speed of the change in skills profiles of new talent is outpacing the UK immigration system's ability to adapt screening processes e.g. for digital and entrepreneurial skills. A more flexible system will ensure the UK is able to access the best and most valuable talent from around the world.

- The government should facilitate the industry's access to leading global talent by **introducing sufficient flexibility into the visa and immigration system so changing skills profiles can be met**.
- The industry must regularly inform government what **skills needs are not met by domestic talent pools** and identify the level of immigration that is required to close immediate and short- to medium-term gaps.
- The government **and the EU-27** must ensure continued **mutual access to talent**, and must provide and agree reassurance about the status of EU citizens and their families working in the UK and vice versa.

22. Create specialised, flexible skills-based visas to attract and retain talent to address digital and entrepreneurial skills gaps which are critical to the UK's globally leading FinTech sector.



Government-led

As a result of the shift to digital, the skills required and the workforce profile are changing rapidly and differ from what the industry has traditionally sought. The current UK immigration approach may not meet the future needs of a wider group of talent which either will not have secured full-time employment with a company, or do not meet the exceptional talent criteria. A new Digital Skills Visa will help the industry to attract and secure digital talent in order to advance the UK's world-leading position in FinTech.

- Introduce a **Digital Skills visa** which encourages and attracts a broader talent pool to the UK, broken down into three sub-categories specifically engineered to both attract and retain the best global talent. In each case, it would allow an individual to work for one or more endorsed enterprises or establish a start-up. These visas would not have minimum salary thresholds.
 - A **Post-Study Digital Skills Visa** would be targeted at individuals qualifying within relevant fields from the best UK and global technology institutions. It would not require a specific job offer.
 - A **Youth Mobility Digital Skills Visa** would be targeted at individuals aged 18-30 from recognised leading technology centres. It would require successful completion of an aptitude test targeted at key skills shortages and would not require a specific job offer.
 - A **Digital Skills Visa** would be targeted at individuals meeting defined skills shortages. It would require a job offer from an endorsed employer.
- Establish a **Designated Competent Body** in the UK to govern the Digital Skills Visas. This body would have a detailed understanding of the needs of the sector and importantly, how these skills will develop and change over the years. It would work with government to establish a realistic annual cap on the number of individuals who can fall within each category to ensure that the system meets both the needs of the sector and aligns with government policy on immigration.
- **Broaden approved secondary employment for Tier 2 migrants** to allow entrepreneurial activity in the FinTech sector via registration with a Designated Competent Body.

23. Streamline the visa process to reduce administrative burden, time and cost.



Government-led

The current immigration and visa process is complex, costly and time-consuming, which can be detrimental to the recruitment of the best international talent into the UK. Streamlining processes and introducing greater flexibility will help increase the ability of businesses to recruit talent, reduce administrative and productivity costs for firms and employees and increase the efficiency of UK Visas and Immigration.

- Make targeted changes to the visa process that reduce the time, complexity and cost of immigration applications. For example, reduce the length of visa forms, allow employers to apply for certificates of sponsorship outside of monthly panels and provide greater visibility into the process and progress of applications for individual applicants.
- Increase access to priority processing services for a wider range of visa application types to reduce overall processing times.
- Build on the steps already undertaken by government to greatly increase the use of technology, AI and automation in the immigration process to enable 'straight-through-processing' for a majority of applicants for simple visas.

ENSURE INTERNATIONALLY FOCUSED, STRONG AND AGILE REGULATION

The UK must ensure that a strong, internationally focused regulatory environment is maintained. Regulation must be agile and evolve in response to the changing nature of financial and related professional services. Regulation should balance the needs of customer protection with the promotion of innovation.

24. Take a lead role in driving towards consistent global regulatory standards where appropriate and advocating for an open, global financial system.



Regulator-led

Regulatory fragmentation and de-globalisation of the financial system should be resisted as they increase cost and inefficiencies in the global system. Global regulatory standards help minimise the risk of regulatory arbitrage and a 'race to the bottom' which may reduce consumer protection and increase systemic risk. Driving international consistency reduces the cost of regulatory compliance for UK-based firms doing business internationally.

- UK regulators and policymakers should support existing international bodies and engage with global standard-setters **to develop global regulatory standards** that are applicable to global markets and sectors that benefit from a consistent international approach, advocating for an open global financial system.
- Regulators should support the industry in developing internationally recognised products by **constructing supportive regulatory frameworks** for businesses and sectors that operate internationally, and by working to ensure they are globally recognised and adopted.
- The FCA should continue its efforts to build FinTech collaboration with other regulators and should continue developing and pushing for common international FinTech standards.

25. Implement a formal and regular review process to ensure existing and newly created regulation remains 'fit for purpose'.



Regulator-led

The UK has taken on a strong stance on regulation post-financial crisis and, in some areas, has gone beyond international standards. This has introduced complexity and increased the cost of compliance. Ensuring that regulation does not have unintended consequences will improve the ease of doing business for firms and better protect consumers.

- UK regulators and government should take the opportunity presented by Brexit to **conduct a thorough review of existing domestic, European and global regulation**. This should in particular focus on regulation created post-financial crisis (e.g. elements of Solvency 2, transaction reporting, and short-selling regulation), to identify regulations that have had unintended consequences and identify ways to mitigate them while maintaining a robust regulatory framework.
- Regulators should establish a mechanism for **conducting similar reviews** on a regular ongoing basis to ensure that regulation remains appropriate into the future.

26. Embed a judgement-based regulatory regime that supports more proportionate decision-making.



Regulator-led

Despite the recent efforts of the PRA and FCA in applying judgement-based supervision, the UK regulatory regime remains complex and is not yet fully appropriate for supporting new business models. Fully embedding a judgement-based regime will enable more proportionate and consistent outcomes and offer fewer loop-holes and potential for abuse, in turn reducing the risk to customers.

- UK regulators must **embed a judgement-based regulatory model** that is understood and applied at all levels, and that ensures decisions are made based on the likely outcome of new rules and their impact on business, markets and customers.
- The new model should be **flexible** in response to new business models, and **proportionate** to the level of risk that businesses pose, while always considering consumer protection. In addition, authorisation processes for new companies should be straight forward and fast to complete.
- The new model should help **set the right balance** between ensuring customer protection, and encouraging innovation and competition, as well as between privacy and data use, in order to better support innovation.

27. Transform processes and technologies to ensure that compliance is straightforward, without compromising the rigour and strength of enforcement.



Regulator-led

The UK has an opportunity to evolve its regulatory regime to increase the ease of compliance. Doing so will reduce the administrative costs for both firms and the regulator, allow for more effective supervision, providing improved customer protection and help ensure the continued attractiveness of the UK system.

- UK regulators must **continue to prioritise accessibility** to industry firms and transparency in their approach to supervision. In addition, regulators should look for ways to reduce the costs of compliance for firms and ensure that they are well resourced with the right talent.
- To achieve this, regulators should **embrace and invest in RegTech** to make supervisory processes such as regulatory reporting and data management more effective and efficient.

28. Ensure regulatory bodies attract and retain highly skilled and experienced staff.



Regulator-led

Firms' delivery models and product and services will be transformed by new technologies. Regulators will need to adapt their skills and experience to serve a more technology-driven industry, or else risk failing to adequately support innovation, promote competition and protect customers.

- Government should ensure enablers are in place to **attract and retain highly skilled and experienced staff within UK regulators**, including structured career paths, competitive remuneration and an agile, modern working culture and environment.
- HMT, the Bank of England and the FCA should ensure they commit adequate regulatory resources to **influencing international standards**.
- **Secondments between technology firms and regulators** should be encouraged to develop expertise in the regulators and improved understanding of regulation in technology firms.

A SIMPLIFIED, STABLE AND INTERNATIONALLY COMPETITIVE TAX REGIME

29. Reform and modernise the tax regime, defining a new approach to tax policy-making that focuses on long-term stability.



Government-led

Increasing the stability and predictability of the tax regime will improve firms' ability to plan and make investments. This will increase the attractiveness of doing business in the UK.

- The government should set out the policy objectives of the tax regime as they apply to industry, moving from a focus on short term measures and the annual budget cycle towards long-term stability in the regime.
- The government should consider the creation of a roadmap of forthcoming changes in the regime (learning from the corporate tax roadmap delivered in 2010 which was well received by the industry).
- The government should develop a specific tax policy for our sector re-evaluating recent measures which are particularly challenging for the industry. There should be joined-up oversight of the impact of broader tax policy on the industry.
- The government should maintain its ongoing commitment to internationally competitive corporate tax rates.
- The government must ensure that, where change to relevant tax law is necessary, the published tax consultation framework is followed and that sufficient lead time is given for review and implementation. There should be clear success factors defined and planned post-implementation reviews.
- The government should strengthen and relaunch the HMRC customer relationship programme. HMRC should be supported to ensure that it is able to develop and maintain resources with technical skills and business knowledge.



Government-led

30. Further tax reform by simplifying the legislative back-book.

The UK tax regime has become complex and very hard to understand. This is increasing the cost of compliance, making it more difficult for firms to assess the impact of tax rules and increasing the demands on tax authorities that are consulted on and required to make decisions on these matters.

- The government should embark on a programme of tax simplification, seeking to reduce the length and complexity of existing tax legislation. This should be incorporated into the medium-term plans of the Office of Tax Simplification.
- The government should identify areas of the tax regime which are a priority for simplification, and identify the root cause of the complexity, length or duplication in those areas. This will help to ensure that legislation is easier to understand and apply for most taxpayers, but applies appropriately as intended by the tax policy objective of the measures.
- There are many potential areas of the tax regime which might be meaningfully reformed and simplified. Such areas might include all or parts of the corporate tax regime, aspects of the personal tax regime (such as the availability of investment reliefs) and the VAT regime. The objective would be to make the legislation clearer and easier to comply with, reducing the cost of compliance and the risk of unintended results.
- In approaching simplification appropriate time should be allowed for legislative changes to be implemented to enable systems and processes to be changed.



Government-led

31. Ensure that the tax regime supports the development, attraction and retention of the best talent in the financial services sector.

It is important that the tax regime does not create barriers in relation to the industry's access to talent, whether this be from overseas or developed locally. Furthermore, many jurisdictions provide attractive tax treatments for foreign business visitors and employees, and it is important that the UK regime is competitive in that respect.

- Reform the employment tax regime for **short-term business visitors** to the UK by aligning the treatment of visitors from overseas branches of UK companies to that of visitors from overseas companies.
- Review the way in which the UK tax regime applies to incoming talent from overseas to ensure that it is competitive with comparator jurisdictions. This should be kept under review as other locations will continue to develop new incentives for the attraction of talent in the sector.
- As part of the tax reform and simplification recommended above, the government should review the various tax reliefs which are available as businesses start up and grow. This is not specific to the financial services industry, but if FinTech will be a major part of the evolution of the industry in the future, it will be important that the aspects of the tax regime which help investors and companies as they innovate are clear and accessible.

ENSURE THE UK HAS WORLD-LEADING DIGITAL AND PHYSICAL INFRASTRUCTURE

Addressing physical and digital infrastructure needs in the UK, particularly those relating to the needs of the financial and related professional services industry, will help the industry to continue supporting customers, innovating and creating jobs and wealth in the economy.

32. Build world-class digital infrastructure to ensure ubiquitous super-fast internet coverage and on-the-go connectivity.



Government-led

The existing speed and coverage of broadband and 4G in the UK, both in urban centres and on-the-go, lags behind that available in most other leading financial centres. World-class digital infrastructure across the whole of the country should facilitate increased innovation and productivity throughout the economy. This is consistent with the ambition of the UK Industrial Strategy (which the government is currently consulting on) to invest in digital infrastructure.

- The government **must ensure commitment to the ambition that ultrafast broadband, of at least 100Mbps, is available** to 95% of UK premises (as outlined in the National Infrastructure Delivery Plan 2016–2021). To improve on-the-go connectivity, it **should increase the minimum connectivity and quality standards for train operating companies** to 4G-equivalent speeds.
- In order to embrace the opportunity that 5G provides, the UK **should co-ordinate network operators, property owners and local authorities to ensure provision of the large increase in physical infrastructure** needed to support 5G roll-out (e.g. vastly increased numbers of transmitters).

33. Deliver on key pipeline projects expanding airport capacity and improving intercity travel between financial centres.



Government-led

Heathrow Airport has operated at almost full capacity since 2003 and inter-city travel within the UK is slow and costly. Investing in transport infrastructure in the UK will help ensure the ability to provide more services to an increasing range of global growth markets and will support national, regional and local financial economies.

- The government must ensure delivery of key pipeline projects (e.g. Heathrow's new runway) to **improve existing airport capacity**, enabling an **increase in direct flights to targeted developing and niche markets**. In addition, the government should increase international airport capacity across the UK.
- The government **should continue to make progress with key transport initiatives** such as:
 - HS2, which will greatly reduce the travel time from Manchester, Leeds and Birmingham to London.
 - HS3, which would connect Liverpool, Manchester, Leeds and Sheffield and could cut the journey time between Leeds and Manchester by 40%.
- The government must invest in key road networks, such as the M62 between Liverpool and Manchester, to help increase capacity between cities (as detailed in 'High Speed North' report by the National Infrastructure Commission).

34. Reduce congestion in intra-city travel, to speed up commuting between airports, financial districts and city centres.



Government-led

Congestion within UK cities and the distance between London's financial district and major airports makes travel difficult and slow. Reducing intra-city travel times will reduce air pollution and CO₂ emissions and increase workforce productivity. This is consistent with the UK Industrial Strategy's ambition to support regionalisation through infrastructure upgrades.

- The government should continue exploring additional pipeline projects (e.g. Crossrail 2), as well as explore and implement congestion-tackling alternatives e.g. **collaborate more efficiently** with local authorities, utility companies and developers, **increase use of user-paid tolls** on selected busy routes and improve public transport routes. The use of PPPs should continue to be prioritised to increase the deliverability of these projects.

35. Ensure a sufficient volume of affordable housing in the UK's financial centres (e.g. through planning permission and use of greenfield sites).



Government-led

Housing costs in UK cities and financial centres, particularly in London, are increasingly unaffordable. Improving the availability and affordability of housing, particularly for young professionals, will help increase the attractiveness of living and working in UK financial centres.

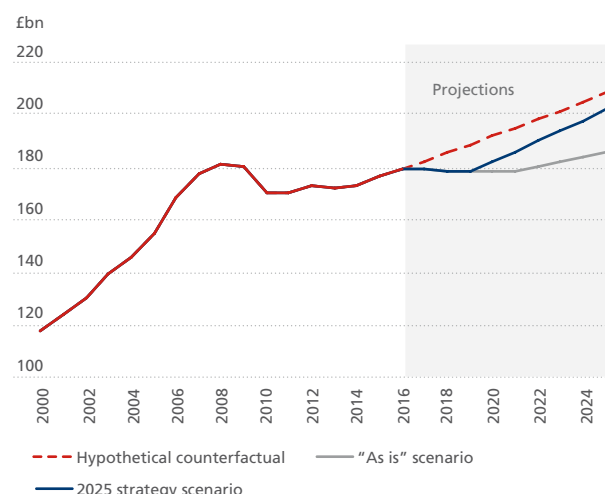
- The government should **review the planning permission system in London**, considering options to increase the amount of land available for development, including greenfield sites (e.g. by centralising planning authority) and should review the impact of affordable housing quotas.
- The government should work with the construction industry to **prioritise appropriately priced accommodation within cities** that still provide a good quality of living.
- The industry should explore ways to **support new hires in getting onto the property ladder**.

THERE WILL BE MATERIAL SOCIETAL AND ECONOMIC BENEFITS

Achieving the UK vision is expected to create £43bn in additional economic gains in 2025 – a 2.0% increase to the UK's GDP, relative to an 'as is' scenario. Around three-quarters of this additional economic benefit would be generated outside London

Figure 53: Modelled GVA for the industry, in constant 2015 prices

Source: PwC's Strategy& analysis; ONS



The current trajectory for the industry suggests a period of reduced growth

Our scenarios show that the industry must take action. In the absence of a deliberate strategy to counter the effects of Brexit and other challenges, the industry is expected to stagnate. This is in comparison to a hypothetical counterfactual where the industry maintains pre-EU referendum growth.⁵²

This variance is driven by a loss in the UK's international competitiveness as a financial centre, slower growth from reduced access to the Single Market, and a failure to respond effectively to the major trends that are reshaping the industry.

On this current track, the industry will not materially grow value, its export earnings or tax base in real terms in the medium term, but could return to growth – albeit moderate – after a period of considerable adjustment.

Achieving the vision would deliver material benefits for the industry and the wider economy

Delivering the vision is needed to help return the industry to growth that is stable and sustainable, marking a departure from the excessive growth that ended in the global financial crisis.

A bespoke computable general equilibrium (CGE) model of UK economy has been used to estimate the scale of potential impact that can be expected from achieving the vision. The model combines economic data and a complex system of equations in order to capture the interactions of the three main elements in an economy – households, businesses and the government.

In the short term, the industry is expected to face a slowdown as a result of Brexit-related uncertainty and transition. However, over the medium term, the industry has the opportunity to accelerate growth, as the productivity and welfare enhancing effects of the strategy filter through the economy. These projections suggest the vision would deliver clear benefits for both the industry and the UK economy:

Industry benefit: On an overall basis, the modelling suggests that implementing the 2025 strategy could result in GVA generated by the industry that is 9% larger in 2025, compared to the 'as is' scenario – equivalent to £16bn.

Figure 54: Absolute (£bn) and percentage difference in real UK GDP and industry GVA under the 2025 strategy against the 'as is' scenario in 2025

Source: PwC's Strategy& analysis

	Industry GVA		UK GDP	
Innovation	9.4	5.1%	24.4	1.1%
Export competitiveness	1.2	0.7%	3.1	0.1%
Efficiency	5.8	3.2%	15.2	0.7%
Total impact	16.4	8.9%	42.6	2.0%

UK economy benefit: The wider economy is also expected to benefit significantly. The UK economy (in real GDP terms) as a whole would be 2.0% larger – or £43bn – relative to the ‘as is’ scenario in 2025.

Delivering the vision would deliver benefits in three main areas.

The largest gains to the economy are driven by industry **innovation**, such as the introduction of new financial and savings products that better meet societal needs. For example, the adoption of blockchain technology or more secure forms of customer identity verification can help businesses minimise transaction costs while driving customer demand from more convenient interactions with businesses. Digital solutions targeting product and service gaps, such as advice and basic banking, help enhance social welfare for households and enable productivity improvements to be made elsewhere in the economy.

The strategy will drive an increase in **export competitiveness** that significantly benefits the industry. The improvement in London’s competitiveness as an international financial hub positions it well to capture a growing share of global exports of financial services and related professional services. As a consequence, using the CGE model, exports produced by other sectors experience a ‘crowding out’ effect. This is due to an increase in the industry’s relative competitiveness results in a sterling appreciation, which dampens exports from other sectors. However, other sectors experience a small (offsetting) positive benefit from the increase in demand for their products and services due to the increase in industry activity.

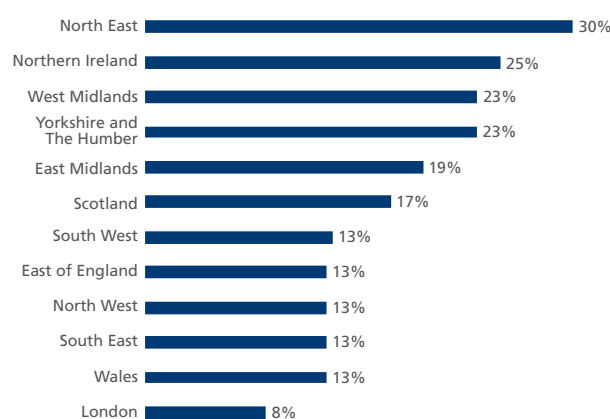
The **efficiency improvements** in the industry are likely to be delivered via a combination of (i) cost reduction, including by relocating staff and activity to UK regional and national centres, as well as (ii) greater acceleration towards the adoption of digital technology. These initiatives, particularly the trend towards automation and the adoption of labour-saving technology, while resulting in a reduction in industry employment, benefit the rest of the economy as these efficiency gains are passed onto customers with the support of competitive forces (underpinning the need for a fully functioning competition regime primarily delivered through the CMA and FCA). Other sectors therefore benefit as the efficiencies and cost savings are passed on as cheaper and more affordable

financial services to households and business consumers of financial services. This increases the value of GVA and employment opportunities outside of the FRPS industry.

The growth in automation via the use of robots and AI is likely to erode many jobs over the medium term. PwC analysis suggests that some financial services jobs in the UK could be at risk of automation by 2030. Many of these jobs are likely to be replaced with new jobs in new areas (e.g. new creative, management and human contact areas of the industry) and providing new products and services identified in this strategy. This means the net impact on industry employment from the 2025 strategy will be finely balanced. We expect only modest industry employment growth of 6% by 2025 relative to the ‘as is’ scenario, which demonstrates that this 2025 vision is not primarily intended as an employment growth strategy for the industry, rather a strategy for delivering benefits to the wider economy.

Figure 55: Change in industry GVA between 2016 and 2025 by region/nation, % difference

Source: PwC’s Strategy& analysis



Around three-quarters of additional economic gains would be generated outside of London

Industry benefit: 70% of the incremental benefit (GVA gains) generated by the industry itself would come from outside of London. This would be driven by the larger roles played by the regional and national centres, becoming domestic and specialist financial centres. While London is expected to gain the most in absolute terms, the fastest growing UK regions and nations for the industry over the 2016-25 period would be the North East, Northern Ireland and the West Midlands.⁵³

UK economy benefit: 75% of the incremental benefit (GDP gains) generated for the UK economy are expected to come from outside London. The South East, Scotland and the North West will benefit in particular from the increase in the size of economic activity in absolute terms, relative to the base case, by 2025.

The scale of societal and economic benefits from delivering the strategy emphasise the need to act now

Our projections indicate clear societal and economic benefits from pursuing the strategy and implementing the required recommendations.

Delivering the strategy enables the industry, and indeed the wider economy, to accelerate the pace at which both economic and societal benefits are delivered.

The industry, government and regulators need to respond with purpose and energy in a coordinated way to transform the industry and ensure relevance and success in a rapidly changing world.

CONCLUSION

Despite having a strong starting point, the UK-based industry needs to respond with purpose and energy to transform and ensure relevance and success in a rapidly changing and more competitive world. It has the opportunity to pursue a vision that provides significant benefits to the UK

The industry can set a new direction for 2025

The industry has a strong starting point, but recognises the need to change. Through this strategy it can build on existing strengths and respond to challenges and threats to set a new direction.

Figure 56: Potential shift in direction for the UK-based financial and related professional services

Source: PwC's Strategy&

Today	Potential future direction in 2025
Leading global financial centre with full ecosystem of financial and related professional services, but threatened by reduced access to EU and potential erosion of cluster effect.	Leading global financial centre with a full financial and related professional services ecosystem and strong access to developed, emerging and niche markets.
Facilitates efficient flows of money and helps protect physical assets, but has gaps in services provided.	Meeting a wide range of new and existing customer and societal needs, including the protection of digital assets.
Generates significant employment, GVA and tax, but is London-centric in distribution of value.	Strong UK-wide value generation, with greater participation of regions and nations and spread of benefits.
Attracts and cultivates leading global financial and professional talent but needs a shift towards digital skills.	Leading global talent base including technology skills, entrepreneurs and traditional financial and professional talent.
Has a globally leading FinTech ecosystem, but with funding gaps across the lifecycle.	Well-funded FinTech ecosystem, innovating to develop transformative technologies and offerings.
Is rebuilding trust but potential to further improve reputation.	High levels of trust earned by consistently delivering positive customer outcomes and societal benefits.
Lack of stakeholder alignment to deliver a coherent strategy for the industry.	Strong partnership between government, industry and regulators.

Concerted action will deliver significant benefits by 2025

The vision for 2025 should see the industry transformed, to embrace customer-centricity, embed innovative technologies and regain the trust of society. The UK should remain a leading global financial hub, with London having a full ecosystem and regions playing an important role as domestic and specialist centres.

Coordinated action is required by government, industry and regulators to bring this vision about. Doing so could have a significant social and economic impact with the strategy intended to enhance innovation, export competitiveness and efficiency. The economic case is compelling, with an expected uplift in overall GDP, industry GVA, and the majority of the economic gains generated outside London. Achieving the vision would mean that the transformed industry would continue to be fundamental to the success of the UK in future, both by providing domestic firms and individuals across the country with essential services, as well as by ensuring that the UK remains a leading international centre for financial services.

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