HM Treasury

Financial Services Trade and Investment Board:

annual report 2014-2015

March 2015

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Foreword

Our plan for long-term economic growth depends on financial stability. And having a secure and successful financial services sector here in the UK is an integral part of this plan.

The financial services industry is one of our key employers. It supports hundreds of thousands of hard-working families, and increases prosperity throughout the country. It is a key tax-payer, helping fund our schools and our hospitals. It is our largest export sector; in 2013 our trade surplus in financial services was £59 billon.

When this government came to office 5 years ago, there was much to do to recover from the worst financial crisis since World War 2. So we set about taking bold actions to put in place a stable financial sector – one which pays its way and supports the needs of the real economy.

We had 2 strategic objectives. The first was to ensure that the UK's financial services are properly regulated – creating an attractive environment for investment does not mean forbearance of any irresponsible practices. And the second was to cement the UK's position as a world leader in financial services.

We have ring-fenced the banks, reformed the regulators, cracked down on misconduct and led internationally on establishing high standards of regulation in the EU, the G20 and the FSB. These efforts have established the foundations for a thriving and well-regulated financial services sector which is a long-term asset to our economy.

Two years ago the government created the Financial Services Trade and Investment Board (FSTIB). It is made up of experts from government and industry, and its role is ensuring that the UK's global financial centre becomes even stronger. We asked the FSTIB to identify areas of high growth potential in financial services, and coordinate commercial and policy action.

As readers of this report will see, we have delivered many successes, but a few highlights really stand out. The government's renminbi and sukuk issuances; 2 ground-breaking moves that signalled the strong potential of the renminbi as a global reserve currency for the future, and highlighted the readiness of the UK market for Shariah-compliant investments. The establishment of the India-UK Financial Partnership (IUKFP), an industry-led initiative with an ambitious mandate to strengthen cooperation between the UK and India as international financial centres. And more recently, our Budget announcements on digital currency seek to create a stable and supportive regime for the development of innovative technology, while mitigating the risks of criminal abuse and consumer detriment.

We should celebrate what we have accomplished, but also recognise that there is much more that we can do. To cement our economic recovery, we need to redouble our efforts to make sure financial services work for the whole country. The work of the FSTIB, focussed on enabling exports and encouraging investments, is an important part of that.

George Osborne
Chancellor of the Exchequer

Andrea Leadsom
Economic Secretary to the Treasury

UK employment in financial services

The financial services sector is an integral part of the UK economy. It employs **over a million people**, two thirds of them outside London.

Northern Ireland
19,000 (2%)

Wales
30,000 (3%)

West Midlands
70,000 (6%)

South West
98,000 (9%)

Scotland
92,000 (8%)

North East
28,000 (2%)

North West
108,000 (10%)

Yorkshire and the Humber **70,000 (6%)**

East Midlands
38,000 (3%)

East of England
75,000 (7%)

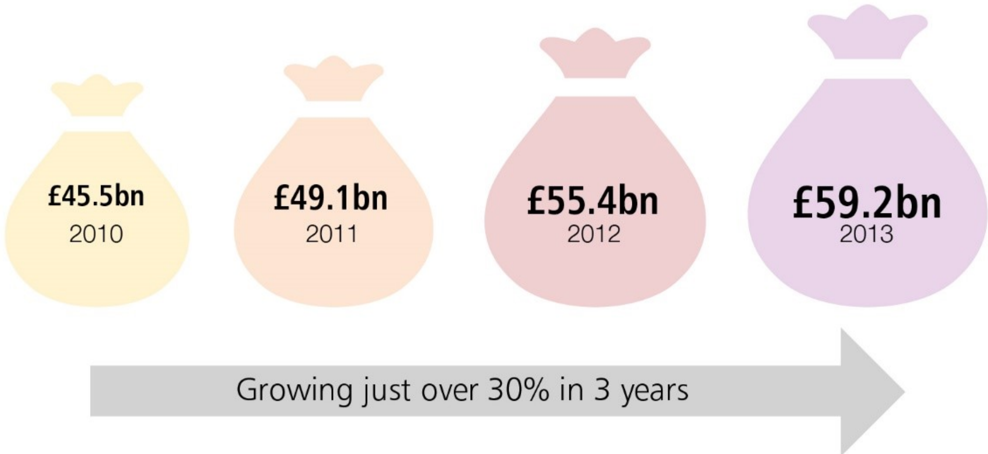
South East
145,000 (13%)

London
358,000 (32%)

Source: Office for National Statistics

The UK's trade surplus in financial services

The UK's trade surplus in financial services is the largest of any country in the world, and makes up over half of the UK's total trade surplus in services.



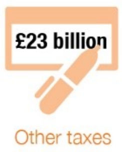
Source: Office for National Statistics

The total tax contribution of UK financial services

Financial services contributes 11.5% of total UK tax receipts.

Over **1 million** people are employed in financial services, contributing **£30 billion** in employment taxes.

Irrecoverable VAT has grown by **76%** in the last 8 years.



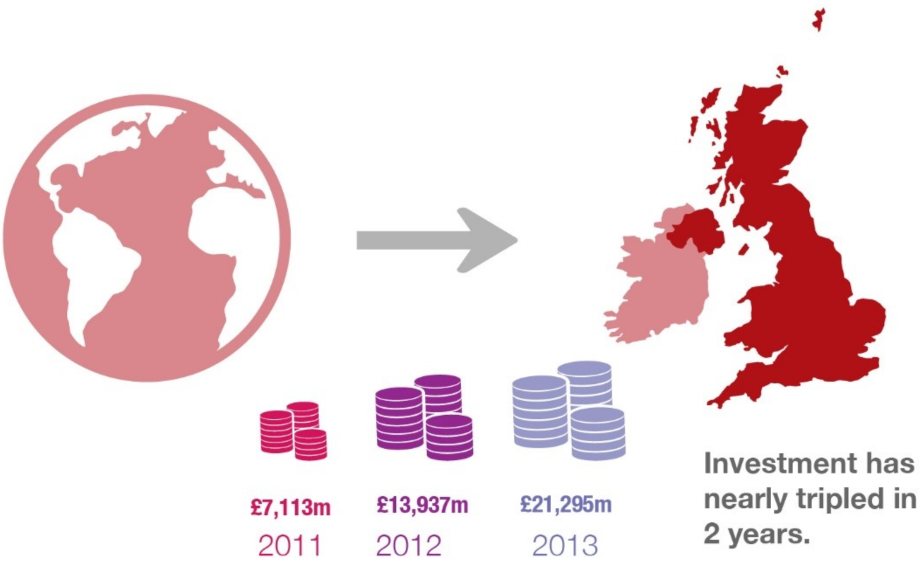
Other taxation from the financial services industry, including corporation tax, bank levy and insurance premium tax.

*Paid in the UK in the year to 31 March 2014

Source: City of London Corporation with PricewaterhouseCoopers

UK FDI inflows from financial services are growing strongly

The UK is a top target for financial services foreign direct investment. FDI from the financial services industry into the UK has been growing strongly year-on-year, creating new jobs across the country.



Source: Office for National Statistics

1 Introduction

1.1 The Financial Services Trade and Investment Board (FSTIB) aims to support the UK's world-leading financial services industry to export abroad and attract overseas investment into the UK. A stable and competitive financial services sector is an important component of the UK's economy. Banks and peer-to-peer lenders provide the working capital that small businesses need to grow, fund managers provide billions of pounds of funding for public infrastructure, and insurance companies help to provide peace of mind for consumers, businesses and investors alike. The government and regulators ensure stability through a strong and effective regulatory regime, and collect a fair contribution from the sector in taxes.

1.2 The FSTIB is a joint government and industry partnership which reports directly to the Chancellor of the Exchequer and is chaired by HM Treasury (HMT). It has a mandate to guide the UK government's strategy and high level priorities on financial services trade and investment. Further details of the terms of reference for the FSTIB can be found in the annex along with the structure of the board and a list of FSTIB members.

Annual progress report

1.3 March 2015 marks 2 years since the creation of the FSTIB. In that time the board has worked across a busy agenda, and responded to a rapidly evolving external economic environment. It has identified key areas of opportunity in the global financial services environment, and ensured that government and industry worked in partnership to make progress.

1.4 This document contains:

- an overview of the UK's current position in the world's financial system, and developments within the last 2 years
- an summary of the FSTIB's work programme from the last 2 years
- a more detailed description of the progress made against each of the FSTIB's key initiatives since the last annual report in March 2014
- a look forward, into the future of the FSTIB and new international opportunities for the UK financial sector

The UK's role in global finance

1.5 The UK is a world leader in financial services, and London is the world's premier international financial centre. The sector attracts capital from all over the world, and allocates it out again where it is needed most, in support of growth, job creation and new ideas. The UK is uniquely positioned to act as the world's global financial centre; allowing firms to do business with Asia in the morning, and America in the afternoon, and employing over a million people, two thirds of whom are based outside of London.[1] There are over 240 foreign financial services firms with branches and subsidiaries in the UK.[2] The UK provides the robust and stable legal system, dynamic workforce, and eco-system of complementary businesses that these firms seek. Nearly half (49%) of over-the-counter derivatives trading takes place in London, and the UK leads the world in foreign exchange with 41% of global foreign exchange (FX) turnover.[3] Added

[1] Office for National Statistics, Workforce jobs by region and industry, 2014

[2] Bank of England, 'Why is the UK banking system so big and is that a problem?', Quarterly Bulletin 2014 Q4, available at: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q402.pdf

[3] Bank for International Settlements, 'Triennial Central Bank Survey: Foreign exchange turnover in April 2013 preliminary global results', 2013; OTC, 'Interest Rate Derivatives Turnover in April 2013: Preliminary global results', 2013

to this, the UK is home to the third largest insurance industry and the largest insurance market (Lloyd's) in the world, and the London Stock Exchange is the fourth largest stock exchange in the world.[4] The UK also hosts firms with particular expertise in a number of specialist areas that are critical to the wider economy, such as commodities trading and reinsurance.

1.6 The government has also been at the forefront of financial sector reform since the financial crisis, leading the call in the EU, the G20 and the Financial Stability Board for common high standards in regulation.

Financial services in the UK economy

1.7 As well as being a key service provider to businesses globally, the financial services sector is a significant asset to the UK economy. Financial services continues to make a large contribution to the UK economy, forming a significant component of the UK's recovery that has sustained despite an environment of low Eurozone growth and increased geopolitical uncertainty.

- **Balance of payments**: Financial services continues to be one of the UK's most successful export industries, contributing a surplus of £59 billion towards the UK's balance of payments in 2013, and £27 billion in the first half of 2014, representing more than half of the UK's trade in services surplus[5]
- **Employment**: In 2014 the financial services sector added 16,000 new jobs to the UK economy, in total employing 1.131 million people. During this period the proportion of financial services employees in London fell from 33% of the sector to 32%, reflecting the fact that many of these new jobs were created outside London[6]
- **Tax receipts:** The UK financial services sector continues to be a large contributor to UK tax receipts, which pay for crucial public services expenditure. In 2014 the financial services sector contributed a total of £65.6 billion to the Exchequer, which amounts to 11.5% of total tax receipts in the UK[7]
- **GDP:** In 2013, the contribution of the financial and insurance sectors to gross domestic product was £124.5 billion. This represents an increase of £4.7 billion from 2012, bringing the proportional contribution of the financial and insurance sectors to 8.2% of UK GDP[8]
- **Foreign direct investment:** The UK has continued to be a top target destination for financial services foreign direct investment (FDI). Financial services FDI figures have been increasing year on year, creating new jobs and increasing levels of spending in the UK economy. In 2013 the UK received £21 billion in financial services FDI, representing a 53% increase from 2012. Of this £21 billion, £11 billion (52%) came from the EU, which is traditionally the UK's largest source of FDI, with £10 billion coming from countries outside the EU. This underlines the UK financial services industry's continuing strong appeal to global investors[9]

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[4] TheCityUK, 'Driving economic growth; creating sustainable jobs: How financial and related professional services serve the UK', available at: http://www.thecityuk.com/research/our-work/reports-list/driving-economic-growth-creating-sustainable-jobs-how-financial-and-related-professional-services-serve-the-uk/

[5] Office for National Statistics, Balance of payments data, 2014

[6] Office for National Statistics, Workforce jobs by region and industry, 2014

[7] The City of London Corporation, 'Total tax contribution of UK financial services – Seventh edition', available at: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Total-tax-contribution-of-UK-financial-services-seventh-edition.aspx . This research, which was conducted by PricewaterhouseCoopers, uses a broader measure of tax contributions compared to the OBR and HMRC. As well as income taxes, national insurance contributions and corporation taxes, this data includes VAT, business rates and other taxes. It includes both taxes paid by the sector and taxes collected on behalf of government, for example, tax deducted from interest paid to customers by retail banks.

[8] Office for National Statistics, Gross Domestic Product, 2013

[9] Office for National Statistics, Foreign direct investment inwards by sector, 2013

1.8 During 2013 and 2014, the UK financial services sector has continued to perform strongly, contributing significantly to a number of key economic indicators. Export and investment figures for the sector are both rising. Set against the context of falling demand in the Eurozone, this implies that UK financial services have diversified to serve new markets, while also maintaining a strong profile in established economies.

2 The FSTIB work programme

The FSTIB work programme

2.1 In the 2014 FSTIB annual report, the government announced the board's work programme for 2014-2015, which focusses on further developing the UK as a global financial centre. The programme is made up of the following 9 initiatives, which were identified as areas where the combined efforts between government and industry could deliver particular progress:

1. RMB internationalisation: To develop London as the global hub for Renminbi (RMB) business outside China and support the internationalisation of RMB by the Chinese authorities
2. Investment management strategy: To make the UK one of the world's most competitive places for the Investment Management industry
3. Islamic finance: To develop the UK as a global centre for Islamic finance
4. UK trade policy: To work with the European Commission to increase the access of UK firms to overseas markets, and promote greater coherence and consistency in financial regulation through the EU's trade negotiations with our key trading partners
5. Insurance growth action plan: To grow the market share of UK insurers in high growth economies in Asia and Latin America; and to attract inward investment – both insurance capital and jobs – to the UK market
6. Emerging capital markets: To support emerging markets in developing deep and well-regulated capital markets
7. Financial technology: To map the UK FinTech sector and identify and pursue high value trade and investment opportunities
8. Back and middle office: To develop the UK's capacity to provide back and middle office functions for international financial services firms; including banks
9. UK as a hub for finance raising: To promote the UK as a prime destination for international firms to raise finance

2.2 The FSTIB work programme is regularly reviewed to ensure it continues to delivers against the board's founding purpose. Earlier this year the FSTIB conducted a comprehensive review and forward planning discussions. As a result of this analysis, the FSTIB will be expanding its work programme to include 2 new initiatives, more detail on which can be found in Chapter 4:

1. India-UK Financial Partnership: Establish close ties and deepen financial cooperation between the financial centres of India and the UK
2. Infrastructure finance: To further develop the UK as a centre for the financing of infrastructure projects overseas

3 Detailed progress report

RMB internationalisation

3.1 2014 was a landmark year for the UK's cooperation with China on financial services, with significant achievements across financial sectors and key market indicators. FSTIB capitalised on these trends with the initiative to support the internationalisation of the renminbi (RMB) by the Chinese authorities, and develop London as the global hub for RMB business outside China.

3.2 The RMB has risen to become the fifth most used currency for international payments,[1] and the latest figures from Thomson Reuters and the City of London suggest that more than half of offshore RMB trading now takes place in the UK. That is more than all other financial centres combined. The UK is also the leading European hub for payments in RMB, with year-on-year growth to July 2014 of 124% according to SWIFT.[2]

3.3 The visit by China's Premier Li Keqiang in June 2014, and the sixth UK-China Economic and Financial Dialogue (EFD) in September 2014, also saw major policy and commercial announcements that have boosted the partnership between UK and Chinese public and private sectors.

3.4 Across this initiative highlights of the past year include:

- The UK-China Financial Forum: The forum addressed opportunities that China's increasing economic and financial significance presents for jobs and growth in both countries. Announcements at the forum included: direct trading between the British and Chinese currencies for the first time, further licences for British firms enabling them to invest directly into Chinese markets, and the approval of RMB-denominated loan guarantees by the government's export credit agency, UK Export Finance. The event was attended by senior British and Chinese policy-makers including: the Chancellor, Premier Li, and Governor Zhou of the People's Bank of China, as well as the Chairmen and Chief Executives of the largest international banks
- RMB clearing bank for London: Building on the agreements between the Bank of England and the People's Bank of China in the spring, China Construction Bank in London became the first RMB clearing bank outside Asia. This complements the existing clearing and settlement infrastructure in Hong Kong and helps ease the transfer of funds in the western time zone
- Integration of the UK and China financial sectors: 2014 saw the approval by the Prudential Regulation Authority of wholesale bank branches for the Industrial and Commercial Bank of China and China Construction Bank – the first to be established in the UK by Mainland Chinese banks since the founding of the People's Republic of China in 1949. Other highlights included the granting of a licence to Lloyd's of London to open a Beijing branch
- RMB bond issuances: in 2014, the UK government issued a bond worth RMB 3 billion – the first RMB bond issued by a non-Chinese sovereign. Used to finance the UK's reserves, the bond was very successful and signalled the RMB's potential as a reserve currency. Other important issuances in London included those by the International Finance Corporation, including the first ever RMB-denominated green

[1] SWIFT data from Jan shows RMB has now risen to 5th in the rankings: http://www.swift.com/about_swift/shownews?param_dcr=news.data/en/swift_com/2015/PR_RMB_into_the_top_five.xml

[2] https://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/Research-2014/RMB-business-volumes-Jan-June2014.pdf

bond, and a bond worth RMB 2 billion issued by China Development Bank, the first by a quasi-sovereign outside Greater China

Forward look

3.5 There has been significant progress over the last 2 years, but there is more to do as China continues to integrate into the global capital and currency markets. The UK government will continue to build on existing policy developments in order to increase RMB liquidity and activities in London, further deepen the links between UK and Chinese financial markets and promote mutual investment. Examples include encouraging further take up of the RQFII and RQDII[3] licenses that enable UK and Chinese investors to access each other's investment markets and further developing RMB products and services in London. The government will also continue to engage widely with other offshore centres, including Hong Kong and Singapore.

3.6 In 2015/16, this work-stream will also be expanded beyond a currency focus to better reflect the opportunities that China offers UK financial services and the wider UK economy. In particular, the government will continue to work with the UK financial services industry to identify and take forward key priorities to deepen the links between UK and Chinese asset management and insurance sectors, and to promote broader regulatory cooperation. In summary, the FSTIB's new ambition will be to establish closer links between UK and Chinese financial markets, across all sectors, and consolidate London's position as the leading global hub for RMB outside China.

Investment management strategy

3.7 The government is committed to enhancing the competitiveness of the UK's asset management industry, which is a key pillar of the UK's financial services sector. In support of this commitment the government launched the 'Investment Management Strategy' (IMS) at Budget 2013. Since then the government has delivered a number of policy changes, and has dedicated increased resource to promoting the strengths of UK asset management overseas.

3.8 Over the past year, there has been strong evidence that policy changes have started to turn into the commercial successes that will enable the UK's investment management sector to grow as an employer and an investor in the UK. The strategy has delivered, amongst other things:

- The abolition of the **'Schedule 19' Stamp Duty Reserve Tax,** and the abolition of withholding tax on income distributions from bond funds for overseas investors. These key developments have created a simpler, fairer and more efficient tax regime that will help make the UK more competitive as an international fund domicile, and in time generate greater tax revenue for the Exchequer
- The creation of **2 new Authorised Contractual Scheme vehicles**. These new fund vehicles have been designed to meet the needs of international investors and asset managers and have the potential to provide greater flexibility and returns in the industry
- The decision to set up an office in London by **Harvest Global Investments,** one of China's oldest and largest asset management companies, underlining the UK's prominence as a destination for offshore RMB asset management

[3] RQFII – Renminbi Qualified Foreign Institutional Investor, RQDII – Renminbi Qualified Domestic Institutional Investor

- An **increase in assets domiciled in the UK** by 10.9% in 2013, ahead of both Luxembourg and Ireland, and showing that the government's policy measures to increase fund domicile are starting to take effect[4]
- The decision by China Construction Bank International to launch the **first UK-domiciled RFQII Exchange Traded Fund**. The fund will be listed on the London Stock Exchange, and is likely to target European institutional investors

Forward look

3.9 In 2015 the FSTIB will continue to market the UK's strong offer as a hub for investment management focussing on the critical markets of the US and China to drive cross-border distribution and attract new investment managers to the UK. Working with industry stakeholders, the government will also conduct a review of the opportunities and barriers in Latin America, wider Asia and Africa, and assess whether to expand the investment management strategy to these territories. The Investment Management Strategy Steering Group and TheCityUK's International Asset Management Industry Group will continue to be channels for stakeholders to provide input on aspects of regulatory perception, Financial Conduct Authority (FCA) authorisation times and product development.

3.10 The ultimate aim of this work is to increase the high quality employment and economic growth that the asset management sector can deliver. The government's strategy is designed to attract fund domicile, assets under management (AUM) and asset managers into the UK; and ensure UK asset managers can enter and compete in key markets around the world. During 2015 the investment industry will conduct a stocktake of the Investment Management Strategy in order to ensure the UK remains competitive and to identify the main policy barriers to UK firms operating overseas. Where appropriate, industry will make policy recommendations to the government.

Islamic finance

3.11 The global Islamic finance industry is growing rapidly, presenting a significant opportunity for the UK. Between 2009 and 2013 Islamic banking assets grew at an annual rate of 17.6%, and they are forecast to grow by an average of 19.7% a year to 2018.[5] The UK is already recognised as a leader on Islamic finance outside the Muslim world. The UK's reported volume of Islamic assets is more than $19 billion,[6] including several well-known construction projects such as the Shard, the Olympic Village, and the redevelopments of Chelsea Barracks and Battersea Power Station. The UK has 5 banks dedicated to Islamic finance, over 20 banks offering Islamic products, and 25 law firms with Islamic finance units. There are $38 billion of sukuk (Shariah-compliant bonds) listed in London[7], primarily issued by corporates and banks based in the Middle East.

3.12 The government is committed to further encouraging the growth of Islamic finance in the UK and ensuring that the UK becomes the Western centre of expertise in Islamic finance, as well as home to many Islamic investments. Over the last year, the UK has made substantial progress in developing further its Islamic finance offer, including:

- The issue of **£200 million worth of sovereign sukuk in June 2014,** the first sovereign sukuk issue outside the Islamic world. The issuance cemented Britain's position as

[4] TheCityUK, 'UK Fund Management 2014: An attractive proposition for international funds', available at: http://www.thecityuk.com/assets/Uploads/UK-Fund-Management-2014.pdf

[5] 'World Islamic Banking Competitiveness Report, 2013-14: The transition begins', Ernst and Young

[6] Financial Market Series, 'UK, the Leading Western Centre for Islamic Finance', October 2013, UK Islamic Finance Secretariat, TheCityUK, available at: http://www.thecityuk.com/research/our-work/reports-list/islamic-finance-2013/

[7] http://www.londonstockexchange.com/specialist-issuers/islamic/finance.htm

the leading western hub for Islamic finance, and demonstrated that the government has successfully created the necessary regulatory and tax framework for Islamic finance

- The Bank of England announced that it will assess the feasibility of a **Shariah-compliant liquidity facility**, which aims to help Islamic banks to manage their operations more effectively
- The government's ongoing work to develop **other Shariah-compliant products**, such as student and start-up loans, which will increase consumer choice and help deliver a truly inclusive economy
- The recent announcement that UK Export Finance, the UK's Export Credit Agency, is expecting to provide its **first Shariah-compliant guarantee** for sukuk issued by a customer of Airbus
- In February, the Rt Hon Hugo Swire MP, Minister of State for the Foreign and Commonwealth Office, chaired the second meeting of the **Global Islamic Finance and Investment Group (GIFIG)**. The meeting focussed on improving global understanding of Islamic finance and encouraging Shariah-compliant investment in infrastructure

Forward look

3.13 In the coming year, the government will continue its policy to strengthen and grow the UK's Islamic finance market with a focus on 3 key themes. First, enhancing liquidity provision in the UK's Islamic finance market to encourage greater competition and levels of efficiency. Second, ensuring the UK takes advantage of the natural synergies between Shariah-compliant financing structures and the growing demand for infrastructure financing. Third, enhancing understanding of Islamic finance principles and processes to ensure that businesses and consumers are better equipped to make informed decisions on Islamic finance.

Financial services in UK trade policy

3.14 The European Commission negotiates trade and investment agreements on behalf of EU member states, in keeping with the rules of the single market. The European Commission has had a busy year in this area, making progress in crucial negotiations that opened in 2013, and also embarking on a number of new treaties and agreements that promise to bring substantial new opportunities to EU firms. The UK is a committed and pro-active advocate of trade and investment liberalisation, and fully endorses the Commission's drive to boost economic growth by removing barriers to EU firms exporting and investing overseas. As the member state with the largest financial services sectors in the EU, the UK is a strong contributor to the Commission's policy positions on financial services trade and investment issues.

3.15 Over the past year the UK government continued its strong support of the Commission across this high profile agenda, including:

- Continued negotiations of the **Transatlantic Trade and Investment Partnership (TTIP)**, which was launched in 2013, under the UK's Presidency of the then G8. This critical agreement represents a once-in-a-generation opportunity to deepen trade and investment relations with the world's largest economy and financial market; a comprehensive agreement is estimated to deliver £10 billion of benefit per year to the UK economy.[8] With the UK's full backing, the EU is seeking the inclusion of a financial services agreement within the TTIP, which includes commitments toward greater regulatory coherence. The UK will continue to work closely with the Commission on this ambition, which is designed to deliver a stronger and more joined-up approach to financial regulation across the Atlantic. Achieving a robust regulatory coherence agreement between such large economies would complement ongoing international efforts to consistently agree strong financial regulation in multi-lateral fora

- The completion of negotiations on the **Comprehensive Economic and Trade Agreement (CETA)** between the EU and Canada. A particularly important agreement for the UK, which is Canada's largest trading partner in the EU, it is estimated that the CETA will bring up to £1.3 billion of benefits to UK firms every year.[9] On financial services, the EU secured an important guarantee of future market access for cross-border insurance, reinsurance and portfolio management services. Formal negotiations were concluded in August, and all that now remains is for the text to be ratified by the Parliaments of Canada and the EU member states, and the European Parliament
- Continued negotiations of the **Trade in Services Agreement (TiSA)**; a pluri-lateral agreement between the EU and 23[10] other members of the World Trade Organisation, which between them represent up to 70% of worldwide trade in services.[11] With such an extensive list of participants, the TiSA is a key opportunity to enhance financial services liberalisation commitments from a wide range of countries. It has the potential to deliver unprecedented levels of market access for UK firms that wish to establish a commercial presence in another TiSA country, or conduct cross-border trade in financial services with customers in other TiSA countries
- The opening of negotiations on an **investment treaty between the EU and China**. Following the dramatic growth of its economy in recent years, China has become a sought after location for investors, and is itself a large investor in the EU. The opening of negotiations on an EU-China Bilateral Investment Treaty (BIT) represent an opportunity to formalise this trend and increase investment flows both ways, with associated opportunities for financial services

3.16 Trade agreements have long-term horizons and, while their negotiation takes time, the resulting benefits can be dramatic. Effective policy-making in this area depends on the Commission having insight into the real-world practicalities of growing a business, exporting services, or investing in a new market. The FSTIB helps to provide this insight and technical expertise in financial services, which ensures that trade and investment policy works to fuel Britain and the EU's recovery and open markets that present new commercial opportunities and inward investments.

Forward look

3.17 In 2015/16, through the FSTIB, the UK government will work in partnership with industry to ensure that the EU's trade and investment agenda continues to deliver more open and secure

[8] Centre for Economic Policy Research, 'Estimating the Economic Impact on the UK of a Transatlantic Trade and Investment Partnership (TTIP) Agreement between the European Union and the United States', March 2013, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/198115/bis-13-869-economic-impact-on-uk-of-tranatlantic-trade-and-investment-partnership-between-eu-and-us.pdf

[9] https://www.gov.uk/government/news/government-welcomes-historic-eu-canada-free-trade-agreement

[10] TiSA participants: Australia, Canada, Chile, Chinese Taipei, Colombia, Costa Rica, the EU, Hong Kong, Iceland, Israel, Japan, Korea, Liechtenstein, Mexico, New Zealand, Norway, Pakistan, Panama, Paraguay, Peru, Switzerland, Turkey, the United States and Uruguay.

[11] http://ec.europa.eu/trade/policy/in-focus/tisa/

markets for financial services. The government will seek to continue its leading role in Europe on key financial services trade negotiations, both by working closely with other member states in the European Council, and by making UK expertise consistently available to the Commission.

Insurance growth action plan

3.18 The 'Insurance Growth Action Plan' (IGAP), launched at Lloyd's of London in December 2013, is designed to help deliver the government's commitment to make the UK one of the most competitive places in the world for insurance. The IGAP has focussed on growing the market share of UK insurers in high-growth economies of Asia and Latin America, and attracting inward investment, both insurance capital and jobs, to the UK market.

3.19 The IGAP has been delivered through a coordinated effort between industry and government. Key achievements from the last year include:

- The granting of a **Beijing branch license** to Lloyd's of London, following extensive discussions between the Chinese authorities, Lloyd's, the Treasury and the Foreign and Commonwealth Office
- The addition of **Hiscox to Lloyd's Brazilian reinsurance platform**, announced by the Chancellor in April. Hiscox joins the 10 other Lloyd's Managing Agents on the platform, helping to expand Lloyd's position as the second largest reinsurer in the Brazilian market
- The development of a **training programme for British officials overseas,** which was designed by the Chartered Insurance Institute and UKTI to up-skill the networks of government officials overseas responsible for trade and investment promotion
- The delivery of a **UK Insurance Summit,** organised by TheCityUK, for senior officials from markets including Brazil, China and Indonesia. The summit was designed to deepen understanding of the UK market and build key relationships with policymakers and regulators in the IGAP's target markets
- A Commitment by the 6 largest insurers to invest £25 billion in **UK infrastructure** over 5 years – with investments including housing, energy, social and transport infrastructure projects
- The establishing of a new **industry-wide apprenticeship programme**, which by end of 2014 already had 1,000 apprentices enrolled and embarking on careers in the insurance sector
- The government's announcement at Budget 2015 that it will work with the insurance industry and regulators to develop a new competitive corporate and tax structure for allowing **Insurance Linked Securities** to be domiciled in the UK. This follows from the government's commitment in the Autumn Statement 2014 to explore options to further develop the **UK as a hub for reinsurance**

Forward look

3.20 Having put in place the measures outlined in the original IGAP, the government will continue to use the resources and guidance of the FSTIB to drive insurance trade and investment promotion. Over the coming months UKTI will continue to implement target market strategies for the key markets of Brazil, China, India, Indonesia and Turkey, and also to develop engagement strategies for a number of secondary markets with high-growth potential including Colombia, Dubai, Kenya, Nigeria and Malaysia. In addition, the government's plan to develop a new structure for the domiciling of insurance linked securities in the UK seeks to open the reinsurance industry to greater use of the capital markets. Collectively this work will aim to secure more inward investment, and attract more foreign insurers, re-insurers and brokers to do business in the UK.

Emerging capital markets

3.21 The world's larger emerging economies are catching up with the established global leaders with increasing pace. Rising income in these countries has increased demands for more liquid and varied investment opportunities. These trends present significant opportunities for the UK financial services sector; they create new export markets for UK financial services, and could potentially deliver significant quantities of inward investment into the UK too.

3.22 Increasing the sophistication and depth of local capital markets has many benefits for emerging economies. Capital markets channel investors' capital to the parts of the economy where there is greatest potential for growth and job creation. They help bring investment into a country, and provide a toolkit to combat the volatility that can sometimes threaten emerging markets and their currencies. As equity, debt, and hedging instruments multiply, so too do the options available for businesses seeking to manage their cash-flow, control their liabilities, and invest for the future.

3.23 The government is committed to strengthening dialogue with emerging economies, and developing capital markets is an area of UK expertise. The government has created the **Emerging Capital Markets Taskforce (ECMT)** to bring together government departments and firms with commercial interests in emerging markets. The ECMT's goals are to deliver increased capital market openness, reduce barriers to trade, and create opportunities for UK financial services. The aim of this work is to achieve more sophisticated local capital markets and greater market access and investment opportunities for UK firms in the emerging market and for firms from the emerging markets in the UK.

3.24 The Emerging Capital Markets Taskforce has focused on 3 markets over the last year: **Brazil, India and Nigeria**.

3.25 **Brazil** is the largest economy in South America and the seventh largest in the world. In the past year, significant progress has been made under the FSTIB to develop Brazil's capital markets:

- The Foreign and Commonwealth Office signed agreements with the Brazilian Central Bank and the Securities and Exchange Commission (CVM) to strengthen **collaboration on capital markets development**
- A roadmap to alternative **SME finance** in Brazil, based on UK expertise, has been developed with the Brazilian Development Bank (BNDES) and the representative body for small businesses (SEBRAE)

3.26 **Nigeria** is the largest economy in Africa, and the twenty-sixth largest economy in the world. In 2014, the government formed the **Nigeria Emerging Capital Markets Taskforce (NECMT),** launched in Lagos by the UK and Nigerian ECMT champions, Sir Roger Gifford (Head of SEB Bank London and former Lord Mayor of London) and Mr Aigboje Aig-Imoukhuede (Head of the Nigerian Stock Exchange). With full regard to governance and transparency, work driven by the taskforce this year has included the following:

- The Nigerian Stock Exchange has agreed to work with the London Stock Exchange to identify a list of companies which could be **dual listed in both Lagos and London**. This will help to foster financial ties and increase investor access for both Nigerian-listed and UK-listed firms

- The Law Society of England and Wales is working on a project with a range of Nigerian stakeholders to identify areas for regulatory harmonisation in order to **increase capital flows between the UK and Nigeria**. The Law Society will report its findings to the NECMT

3.27 **India's** economy is currently the tenth largest in the world, and is growing fast. It has long promised to become an economic powerhouse, and is now forecast to grow to $3 trillion by 2020. The UK government is committed to strengthening ties between the Indian and UK economies, and deepening collaboration between the financial centres in both countries. Highlights over the last year have included:

- The seventh annual **Economic and Financial Dialogue (EFD)** in July, when the Chancellor met with the Finance Minister of India, Shri Arun Jaitley. Financial services was a key part of the EFD, and the Finance Ministers agreed to set up a strategic partnership to establish closer links between India and the UK – the India-UK Financial Partnership

- In October, the Economic Secretary to the Treasury launched the **India-UK Financial Partnership** (IUKFP) led by Sir Gerry Grimstone (Chairman of Standard Life and TheCityUK) and Shri Uday Kotak (Executive Vice Chairman and Managing Director of Kotak Mahindra Bank). The IUKFP is an industry-led initiative that will deepen cooperation between the financial sectors of the 2 countries, and generate targeted recommendations for policy-makers

- A landmark **10 billion Rupee bond** issue from the International Financial Corporation in London – see *London as a destination for raising capital*

Forward look

3.28 It has been a busy year across the Emerging Capital Markets agenda and, with a number of activities moving out of planning and into delivery, 2015/16 is likely to be even busier. On **Brazil**, policy recommendations coming out of joint Brazil-UK analysis will be delivered for assessment by Brazilian policy-makers ahead of the first UK-Brazil EFD in 2015. On **Nigeria**, the UK will continue to support the Nigerian Stock Exchange's ambition to grow to a capitalisation of $1 trillion by 2020, and will prioritise and pursue the key areas for regulatory harmonisation. On **India,** the IUKFP is fully established and is geared up to deliver an ambitious set of policy recommendations feeding into the 2015 UK-India EFD. Over the next few months, the FSTIB and the ECMT will continue to look at other high potential emerging capital markets, and consider whether to expand the programme to new markets.

Financial technology

3.29 The UK is well-placed to become a global hub for the fast growing financial technology ("FinTech") sector, with thriving financial districts in multiple cities and world leading academic centres. The government is dedicated to creating the right environment for innovative financial technology to succeed:

- In August, the Chancellor launched the new FinTech trade body **'Innovate Finance'**. Innovate Finance is a member-driven organisation devoted to help FinTech companies in the UK connect with policymakers, regulators, investors, customers, educators and leading talent

- The **British Business Bank (BBB)** extended its lending to the FinTech sector by £100 million, taking the total BBB funding available to FinTech firms to **£200 million**

- The government launched a package of **digital currency measures at Budget 2015**. The government intends to apply anti-money laundering regulation to digital currency exchanges to support innovation and prevent criminal use. The government is also launching a new research initiative, which will bring together the research councils, Alan Turing Institute and Digital Catapult with industry, in order to address the research opportunities and challenges for digital currency technology, and will increase research funding in this area by £10 million to support this. Finally, the government will work with the British Standards Institution and the digital currency industry to develop voluntary standards for consumer protection. These measures will help build the UK's digital currency sector into a world leader that exports its expertise and attracts investment

- The Government Office for Science has conducted a review into the **future of the UK FinTech sector**. The review highlights the key barriers and opportunities for the industry's growth over the next 10-15 years. Building on its recommendations, the government announced a pack of measures at Budget 2015 to support FinTech growth across the UK. These include a feasibility study for a 'sandbox' that allows innovators to test new products in a safe environment, supporting the adoption of new technologies to facilitate the delivery of regulatory requirements – so-called 'RegTech' – and a series of local partnerships through Innovate Finance to drive FinTech growth and innovation across the UK

3.30 Over the last year, the policy work of the government, combined with the trade promotion activities of FSTIB partners Innovate Finance and UK Trade and Investment, have delivered a number of commercial successes including:

- Hong-Kong based small business loans provider, **Advanced Merchant Payments**, has decided to set up in the UK

- **Infocomm Investments**, a wholly-owned subsidiary of the Infocomm Development Authority of Singapore, invested in London-based FinTech accelerator Startupbootcamp. The investment should help to build a bridge between the FinTech centres of Singapore and the UK

- Trade missions to **Singapore, Malaysia and the United States**, connecting promising FinTech firms seeking expansion to potential customers and investors. The 2014 delegation included fixed income trading specialist **Algomi**, which is launching in Asia after signing up Deutsche Bank Asia as its first customer in the region

- A **'friendship agreement'** was signed between Nest, the leading Hong Kong start-up incubator and investor, and Level39, a Canary Wharf Group initiative. The agreement is built around mutual facilitation of access to the Chinese and UK markets for start-ups from the UK and Hong Kong

Forward look

3.31 With a strong platform of investment, research and promotion, UKTI will continue to deliver the FSTIB's objectives on FinTech with the aim to ensure the UK can be a leading global hub for this fast-growing and exciting sector. In 2015, UKTI will be running a further programme of FinTech trade missions, taking promising UK-based firms to potential export markets, and introducing foreign FinTech firms that are seeking a springboard for international expansion to the UK hub. The government will also continue to build close relationships, sharing best practices and expertise on FinTech with key international partners through bilateral dialogue.

Back and middle office functions

3.32 In last year's annual report the FSTIB committed to considering how to encourage the location of more financial services back and middle office functions to the UK.

3.33 During the past year the FSTIB undertook an extensive industry consultation and research exercise to benchmark the UK's offering as a location for back and middle office functions, and identify the areas for potential growth. The results of this were encouraging, with a general consensus that the UK is already a highly competitive base for skilled BMO functions, and requires little in the way of policy change.

3.34 Research indicated that the UK has an excellent skills eco-system underpinned by strong universities, reliable telecoms infrastructure and transport connections, and a lower cost base than is sometimes perceived. Moreover, there is an increasing awareness that the apparent financial gains of offshoring can sometimes be undermined by the hidden costs of more disjointed management structures and increased operational risk.

3.35 The UK is therefore becoming an increasingly sought after location for BMO functions, as can be seen by the levels of employment in financial services throughout the country. For example in the West Midlands, the home of support centres for several large banks, there are 70,000 financial services employees. Overseas firms are increasingly looking to expand their support functions in the UK; JP Morgan is the largest private employer in Dorset and American Express is the largest private employer in Brighton, while Citigroup has recently announced plans to further expand its sizeable Belfast hub.

3.36 There is strong potential for further growth in financial services BMO employment across those functions which are considered highly complex and work closely with front office, or which involve customer-facing activities. The FSTIB has identified growth potential in the following BMO functions:

- Compliance: Many compliance functions depend on complex businesses processes that require an in-depth understanding of the evolving products and services that the front office sells. Financial services compliance, which is often considered unsuitable for full offshoring, is therefore a strong potential candidate for 'near-shoring' in UK BMO centres
- Risk analysis and management: The majority of financial services risk functions need to be located close to the front office due to the complexity of the financial products involved. Increasingly, data technology will also play a larger role in risk management, presenting opportunities to the UK's growing FinTech sector
- Customer service operations: Many aspects of customer service operations require a close understanding of the consumer base, so firms that primarily serve clients in the UK derive a competitive advantage if they locate their customer service functions in the UK. There is an opportunity for UK locations to claim more of these jobs as firms seek to balance cost control and service quality

Forward look

3.37 The FSTIB's industry partners emphasised the need to promote the UK's strengths in this area proactively through a dedicated marketing drive. As such, UK Trade and Investment will be devoting increased marketing resources to emphasise the attractiveness of existing 'financial centres of excellence'; the regional clusters found throughout the UK where there is a particular concentration of skills and experience in specific financial services sub-sectors. UK Trade and Investment will also be convening local governments, universities and firms in these existing hubs to generate recommendations at a local level to further develop the local region's BMO offering. These activities should enable the UK to capitalise on the recent slowdown in the offshoring trend and attract new financial service firms entering the European market to create more BMO jobs in the UK.

UK as a hub for finance raising

3.38 The UK has one of the most sophisticated capital markets in the world, with firms able to raise finance just as effectively through equity and bond issues as through traditional bank loans. The government has worked closely with international financial institutions, firms, and foreign governments throughout the 2014/15 to ensure that the UK remains a highly desirable location for raising finance, and is at the cutting edge of developments in the global capital markets.

3.39 Key developments supported by the FSTIB this year included:

- The landmark issue by the International Financial Corporation (IFC), of a **Rupee 10 billion 'Masala' bond in London**. The IFC's 10 year bond was the longest dated offshore Indian Rupee issue ever, and the IFC's decision to issue in London is a vote of confidence in Britain's international financial hub
- The signing of a **Memorandum of Understanding** between the London Stock Exchange Group (LSEG) and China Construction Bank (CCB). The MoU, which outlines several areas for closer collaboration with a particular focus on developing RMB-denominated products and boosting their liquidity in Europe and the UK, will further strengthen China-UK financial ties
- The establishment through the RQFII scheme of 4 Exchange Traded Funds that allow investors access to **Chinese stocks in RMB through the LSE**. These exciting developments were made possible by a landmark agreement between Hong Kong-based CSOP Asset Management, and London based company Source, and has cemented London's role as a facilitator for international investors to access the Chinese market
- The signing of a partnership agreement between the LSEG and **the Casablanca Stock Exchange (CSE)**, signed in the presence of the King of Morocco, and strongly supported by the UK government for the ties that it forges between the 2 countries. The agreement is built around the sharing of expertise, and the provision of trading and market surveillance technology to the CSE from MilleniumIT, part of the LSEG
- The listing in April of Nigerian oil and gas company Seplat, the **first company ever to simultaneously list in London and Nigeria**, raising $500 million at IPO. The landmark listing acted as a proof of concept for a dual-listing agreement between the LSEG and the Nigerian Stock Exchange (see section on *Emerging Capital Markets*)

Forward look

3.40 In the future the government will continue to support capital market innovation in the UK and help attract firms from around the world to raise finance in the UK's international capital market. The FSTIB will continue to play an important role in positioning the UK as a prime destination for finance raising by building relationships with international financial institutions across the world.

4 Future of the FSTIB and the year ahead

The year ahead

4.1 After the election, the government will have the opportunity to re-launch the FSTIB and set out its objectives for the coming years. Following a recent review of its work-plan and priorities, and board has proposed 2 new initiatives, which will be included the assessment of the FSTIB's future role, alongside proposed plans for the existing work programme.

New initiative – India financial services

4.2 The opportunities for UK financial services in India and Indian financial services in the UK are considerable. There are many areas in financial services where the UK and India can learn from each other and work together to further shared policy priorities. In recognition of this important relationship, the FSTIB will provide full support to Sir Gerry Grimstone in his role as the UK lead for the India-UK Financial Partnership (IUKFP). Members of the FSTIB will take an active part in the IUKFP and the board will also help to provide steers and challenges on the work of the IUKFP as it makes progress on its 9 work-streams:

- collaboration to develop the corporate bond market in India
- mutual sharing of expertise on banking regulation and capitalisation
- enhancing financial training and qualification
- supporting financial inclusion in both countries
- enhancing the cross-border provision of financial and insurance services
- collaboration to develop a pensions market in India
- internationalisation of the Rupee
- supporting infrastructure funding in both countries
- divestments – building popular support in India and encouraging retail participation

New initiative – infrastructure finance

4.3 Across both Europe and the world's large emerging markets the demand for infrastructure finance outstrips the capacity of the bank loan market, which is the tradition source for infrastructure finance. The UK's financial sector is well placed to explore the solutions to this challenge, and help to facilitate the development of crucial social infrastructure around the world while also benefitting UK financial services. The FSTIB will therefore consider, and potentially take forward, a coordinated government and industry effort to develop greater liquidity in infrastructure financing, and ensure potential investors have better access to suitable projects.

A Further details on the FSTIB

A.1 The board is a joint government and industry partnership which reports directly to the Chancellor of the Exchequer and is chaired by HM Treasury (HMT). Membership is comprised of senior representatives from across government and industry. The government departments sitting on the board are HMT, the Foreign and Commonwealth Office (FCO), UK Trade and Investment (UKTI) and Business Innovation and Skills (BIS). The senior representatives from these departments are:

- Charles Roxburgh, Director General, Financial Service, HMT
- Sir Julian King, Director General, Economic and Consular, FCO
- Sue Langley, CEO, Financial Services Organisation, UKTI
- Katharine Braddick, Director, Financial Services, HMT
- Chris Barton, Director Europe, Trade and International, BIS
- Janne Lipponen, Deputy Director, EU Banking and Financial Services Strategy, HMT

A.2 The senior representatives from TheCityUK are:

- Sir Gerry Grimstone, Chairman, TheCityUK
- Chris Cummings, CEO, TheCityUK
- Sir Andrew Cahn, Chair of TheCityUK's International Trade and Investment Group

A.3 Five independent external members also sit on the board and all are industry leaders with extensive experience within the financial services sector, leading successful global firms. They act within a personal capacity providing direction and advice on the board's deliberations and challenge the board on its delivery. These external members are:

- Ana Botin, Chairman, Santander
- Douglas Flint, Chairman, HSBC
- Martin Gilbert, CEO, Aberdeen Asset Management
- Martin Scicluna, Chairman, RSA
- Xavier Rolet, CEO, London Stock Exchange

A.4 In addition, Dame Amelia Fawcett, currently a Non-Executive Director for HMT, has agreed to act as the Non-Executive Director for the FSTIB. Dame Amelia, who has long-standing experience of the financial services sector, provides independent input and challenges to the board's deliberations and operations. She also ensures that the board's decisions and strategies are consistent with the Treasury's broader business plan.

HM Treasury contacts

This document can be downloaded from www.gov.uk

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