CITY OF LONDON

THE GLOBAL CITY

State of the sector: annual review of UK financial services 2024

Click to start

Contents

Foreword

Chris Hayward
Policy Chairman of the
City of London Corporation

This is the third year the City of London has produced the State of the Sector report, and the first time it has been written under a different government. Since the election in July, the new government has made it clear that the UK's international competitiveness and attractiveness to investment is a priority.

The Government's International Investment Summit, held at the Guildhall in the first 100 days of its term, brought together some of the world's most influential business leaders to address the key issues of driving growth through investment and Britain's global standing. The Government also launched its new Industrial Strategy, which included both financial and professional and business services among the eight growth-driving sectors highlighted. This acknowledgement of the role of our sectors as major economic drivers for the country is very welcome.

As we show in this report, the UK is a world leader across the financial services spectrum; we must build on our strengths to generate growth. Financial Services is one of the most productive employment groups in the UK with each worker generating around £200k of economic benefit. More than 1m people work in FS and a further 1.4m are employed in related professional services; two-thirds of which work outside of London. A strong financial services industry strengthens the entire UK economy, boosts skills, and provides essential services that facilitate growth across business and industry.

The government's announcement of a new investment agency is a significant milestone in our journey to growth. It answers calls that the City of London Corporation made in our landmark report, Vision for Economic Growth, last year. But there is further work to do. This State of the Sector report also picks up on key themes from Vision for Economic Growth, and highlights some of the investment gaps that must be filled. Funding for businesses in the scale up stage is one such gap – UK investors must step in to stop large US VCs from poaching our most innovative and fastest growing businesses. Another opportunity lies in positioning the UK as a leader in transition finance, as highlighted in the recent Transition Finance Market Review.

The City of London Corporation supports the government's policies to address effective regulation, excessive red tape, and boost investment. We look forward to working with the Government and industry to turbo charge the financial services industry and the UK economy.

Introduction

In this third annual State of the Sector report, we continue to assess the strengths and opportunities for UK financial services (FS) on an annual and multi-year basis. We combine a range of quantitative measures with qualitative industry engagement to determine what has happened, why it happened, and what the industry needs to do.

The UK's FS industry is in a strong position: in many aspects, it leads the world. The UK is a global financial hub for insurance, international banking, asset management, bond issuance and trading, and equity capital raising. Global investor capital continues to flow, in hot pursuit of UK businesses. However, in this highly competitive marketplace, other global financial centres are stepping up.

In Vision for Economic Growth, the City of London Corporation outlined its agenda for a long-term plan for the FS industry. The plan is industry-led and based on the City of London Corporation's extensive industry engagement. This State of the Sector report builds on three of those recommendations: boost investment, promote the UK as a global financial centre, and support the conditions for growth. Below, we apply those three pillars to capital and investment markets, sustainable finance, and tech. And highlight the necessary regulatory regime and skills requirements to boost growth and maintain the UK's position as a leading financial centre.

Although the UK has not lost market share or relative position, the absolute size and volume of activity in financial markets has declined. Other financial centres are growing, however, and the UK needs to share in that growth. Therefore, it is critical that the UK broadens its trade opportunities. Trade agreements such as the UK-Switzerland Mutual Recognition Agreement open doors to new growth. The Mansion House Reforms were introduced in 2023 to release capital into more productive, high-growth potential companies and boost investment in the UK.

There is considerable appetite for sustainable investment in the UK, particularly from institutional investors. Yet while the delivery of net zero is a major government policy, the lack of a coordinated plan to join up (and finance) transition projects has contracted investment. Fears of greenwashing accusations also reduce investor appetite. A centralised 'net zero delivery' government department would help boost investment and allay greenwashing risks. Since the election, the government has boosted the Department for Energy Security and Net Zero (DESNZ) with a mission-driven approach for greater collaboration between government departments.

The UK is the largest tech ecosystem in Europe and provides an excellent base for startups and innovative companies, particularly in FS. But it lacks the investment firepower to take fast-growing companies to the next level. Seed capital and A-series investment is available, but scale-up capital (£100m+) comes from big US venture capitalists (VCs). For innovative companies to grow in the UK it is necessary for institutional investors to invest in the scale-up stage and keep high potential companies in the UK.

The UK's regulatory regime is highly regarded around the world, and it is often cited as one of the main attractions for new businesses to set up in the UK. There have been significant improvements in how UK regulators, particularly the FCA, operate and interact with FS firms. However, regulatory burden is a concern with FS firms allocating significant budget to satisfying regulatory requests and adapting to regulatory change. These firms need continuity and time for recent regulatory changes to be established.

Executive summary

The UK is a Services-led economy, and Financial Services (FS) is the largest contributor to services in the UK.

The FS industry employs 1m people in the UK, with a further 1.4m people employed in related professional services. The FS industry is one of the UK's most productive industries; in 2023 it produced £294bn in GVA, 13% of the UK total. FS workers produce almost £200k of economic output per worker. In 2023, financial and professional services contributed £110bn to UK taxes, 12% of the UK's total tax take. Supporting financial services is supporting growth in the UK.

In 2023 the FS industry produced

£294bn

in GVA, 13% of the UK total

This report reviews the past year in financial services, using a wide range of metrics and industry engagement to analyse the UKs position. It highlights the industry's many successes, and reveals opportunities to boost growth and improve international competitiveness. The metrics and KPIs used in this report are consistent in order to measure success on an ongoing basis, but some metrics have been added to reflect FS industry evolution.

Raising investment and boosting growth

The UK is the leading international finance hub for raising investment. In 2023, British and international companies raised over £1tn through bonds and £17bn through equity issuance. The UK's FS expertise and accommodating regulatory regime enables businesses to access the capital they need to grow. Increasing investment into domestic companies, particularly from UK investors, would boost growth and this would in turn make the UK more attractive to further investment. High profile promotion of the UK's FS industry would also help to attract investment and boost growth.

The UK leading in sustainable finance

The UK is the world leader in sustainable finance. UK companies have leapt into action to achieve net zero targets, which has in turn generated an ecosystem of best-in-class advisors and experts in emissions reduction. The FS industry also has world-leading expertise in financing and insuring green, sustainable and social impact projects, which is in high demand around the world. UK investors are keen to invest in sustainability and social impact. But we need to make sure that UK financing and expertise reaches the right projects.

A digital-first economy

The UK is the largest and most important tech ecosystem in Europe. It provides a competitive base for startups and innovative companies, particularly in FS. But the UK lacks the investment firepower to take fast-growing companies into the scale-up stage. Seed capital and Series A investment is available, but scale-up capital often comes from big US venture capital investors. For the UK to grow in this area, it is necessary for institutional investors such as pensions, insurers and endowments to invest in tech companies at the scale-up stage. This will then allow high potential companies to remain and thrive in the UK.

Supporting the conditions for growth

The UK FS industry generally has a positive view of the UK's regulatory regime. Additional investment in people and technology has improved regulatory operations. However, industry professionals are feeling overburdened by regulatory changes and requests for information. Attempts to accommodate regulatory challenges have led to a bidding war for compliance and legal talent. FS firms have reported the increasing cost of responding to regulatory information requests, with one firm reporting a cost in excess of £600k. FS industry growth is also being held back by a risk-averse culture within regulators, which is reducing investment in high-growth potential markets such as tech and sustainable finance.

1. Raising investment and boosting growth

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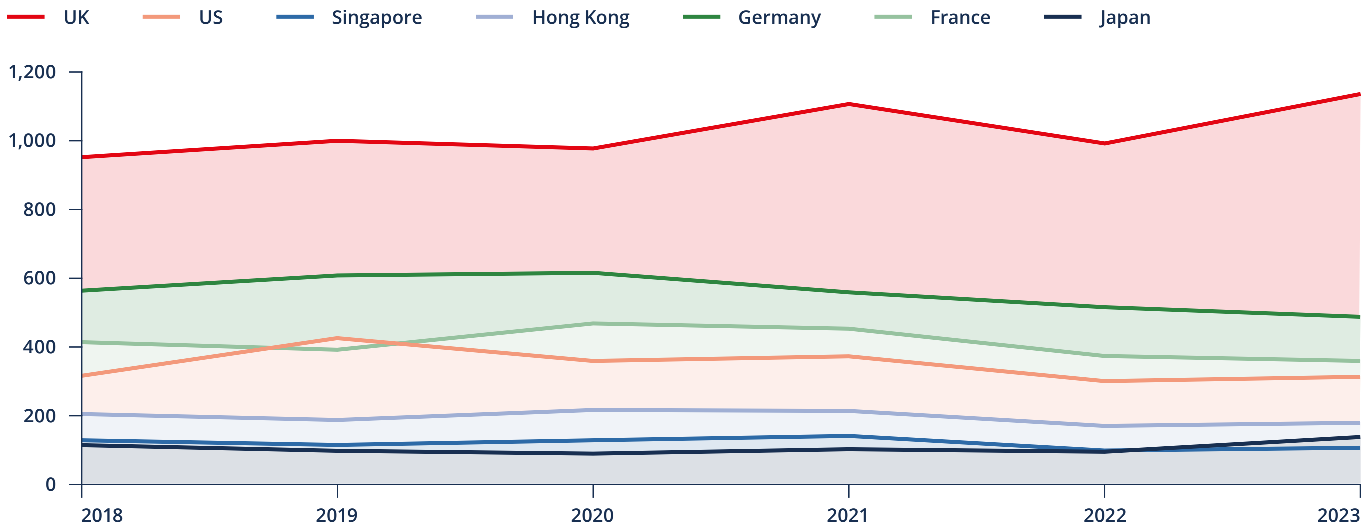
There is not a single solution to boosting growth and making the UK more competitive. Increasing investment into UK companies, particularly from UK investors, would boost growth and make the UK more attractive to further investment. This could be done by earmarking pools of capital, such as pension capital, for investment in high-potential start-ups. Keeping high growth companies in the UK is essential to boosting growth and the economy.

The UK is the leading international finance hub for raising investment. In 2023, British and international companies raised over £1tn through bonds and £17bn through equity issuance. The UK's FS expertise and accommodating regulatory regime enables businesses to access the capital they need to grow. In July this year the FCA implemented a complete overhaul of the UK's Listing Rules which aims to improve regulatory competitiveness, and provides greater flexibility for firms and founders listing on our markets.

The government has committed to take forward the new Private Intermittent Securities and Capital Exchange System (PISCES). At Autumn Budget 2024, the government announced that PISCES transactions will be exempt from Stamp Duty and Stamp Duty Reserve Tax. A response to the March 2024 consultation will be published in due course, ahead of laying a statutory instrument before Parliament to establish the PISCES sandbox.

The UK is the world's largest centre for international debt issuance.

Gross issuance of international debt securities, US$bn.



Source: BIS

The financial services industry sees opportunities in:

Encouraging investment by large UK investors into the scale-up stage of the business life cycle.

Currently, US VCs are meeting the capital needs of fast-growing companies seeking investment greater than £100m. If more UK investors enter that part of the market then fast growing, innovative companies will be encouraged to remain in the UK.

Opening routes to new markets for UK companies to grow.

The UK is an international hub for finance and companies based here benefit from an openness to capital and labour flows. The FS industry would benefit from using the UK-Swiss Mutual Recognition Agreement as an example to increase the number of innovative services export trade routes.

Promoting the UK's FS strengths on the world stage.

The UK is a world-leading financial centre but does not receive sufficient recognition for it. Competitor markets have powerful investment agencies to attract FS companies, whereas UK promotion relies on a wide range of government departments and industry bodies. The FS industry would benefit from a centralised, high-profile promotional campaign led by government and industry leaders.

But the UK suffers from an image problem. Smaller markets are perceived as more influential or bigger players in the financial world. This perception affects growth, putting other markets at the forefront of decision makers' minds when considering where to do business. FS exports contributed £72bn to UK GDP in 2023, but this could be increased through effective promotion, a closer relationship with the EU, and opening up new FS trade routes.

The government has announced a pensions review as part of its mission to 'boost growth and make every part of Britain better off'. The review will seek ways to boost investment, increase pension pots, and tackle waste in the pensions system.

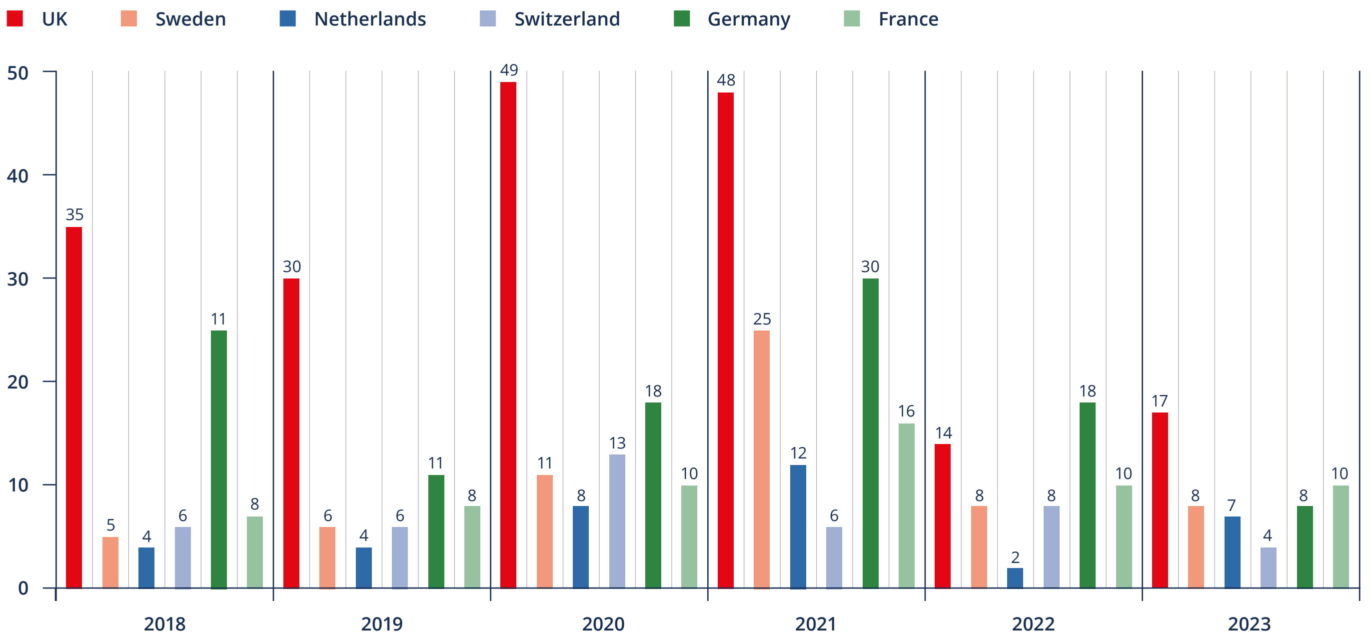
The first phase of the pensions review, due to complete in autumn 2024, will focus on driving scale and consolidation of DC workplace schemes, achieving a greater focus on value to deliver better outcomes for future pensioners, and unlocking pension investment in UK assets to boost growth. The review will also examine how we can deliver a strong and sustainable Local Government Pension Scheme (LGPS) by tackling fragmentation and inefficiency.

The UK is the most important global hub for international debt issuance.

In 2023 US$1.1tn of international bonds were issued in the UK, more than double the next largest financial centre, Germany, with US$484bn issued. The openness of the UK's financial services ecosystem – combined with world-leading expertise and a respected regulatory regime – makes it the top choice for global capital raising. In 2023, there was US$3.4tn of outstanding international debt in the UK (the US was in second place with US$2.4tn). This is a key part of the UK FS industry that has experienced growth and captured global market share over five years.[1]

The UK is Europe's leading market for raising equity capital.

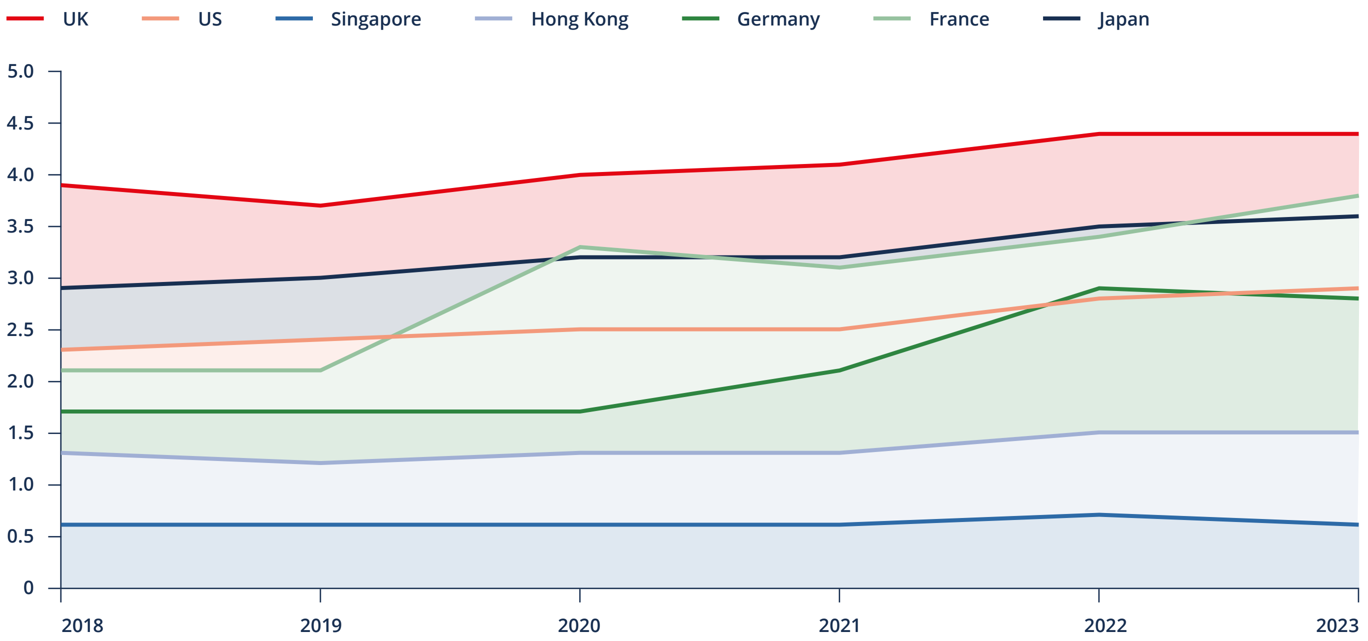
Total equity capital raised, £bn.



Source: LSEG

The UK is the top cross-border banking centre in the world.

Cross-border bank lending, £tn.



Source: BIS

£17.2bn

raised by companies on the London Stock Exchange in 2023

The UK is the largest market in Europe for raising equity capital and has been for the past decade.

British and international companies raised £17.2bn on the London Stock Exchange in 2023, more than the next two largest European exchanges, Frankfurt and Paris. Although IPOs (Initial Public Offerings) have been muted recently, FPOs (Follow-on Public Offerings), where established market constituents raise further capital, have remained healthy in the UK. On a global scale, the UK ranks third, behind the US and India in 2024. In 2024, £20.4bn equity capital has been raised in London through £19.8bn in FPOs and £585m from IPOs.

In the five years to September 2024, 192 UK companies IPO'd in London, raising over £23.8bn. Over the same period, 847 UK companies have returned to the London equity markets raising over £122bn through 1,975 transactions.[2]

Higher interest rates have slowed PE and VC investment activity significantly.

Many unicorns (companies valued at US$1bn+) and other fast-growing companies founded in the UK are now seeking scale-up capital to advance to the next stage of their business cycle. Therefore, we must ensure pools of capital are available from long-term institutional investors. Across the seven financial centres we monitor – United States, United Kingdom, Germany, France, Hong Kong, Japan, and Singapore – there were 2,025 fewer FS and tech deals in 2023 than in 2022 and a 26% drop in capital raised by FS and tech companies via PE and VC investors. The UK experienced the largest drop in capital raised in 2023 with £20bn invested, down from £27bn in 2022 and £45bn in 2021. Singapore saw the largest relative change with a 35% reduction in capital raised in 2023. The US remains the largest centre for PE and VC investment but saw the number of deals fall by almost 1,400 year-on-year.[3]

The UK's FS industry provides the essential business services that allow companies to operate smoothly and boost productivity.

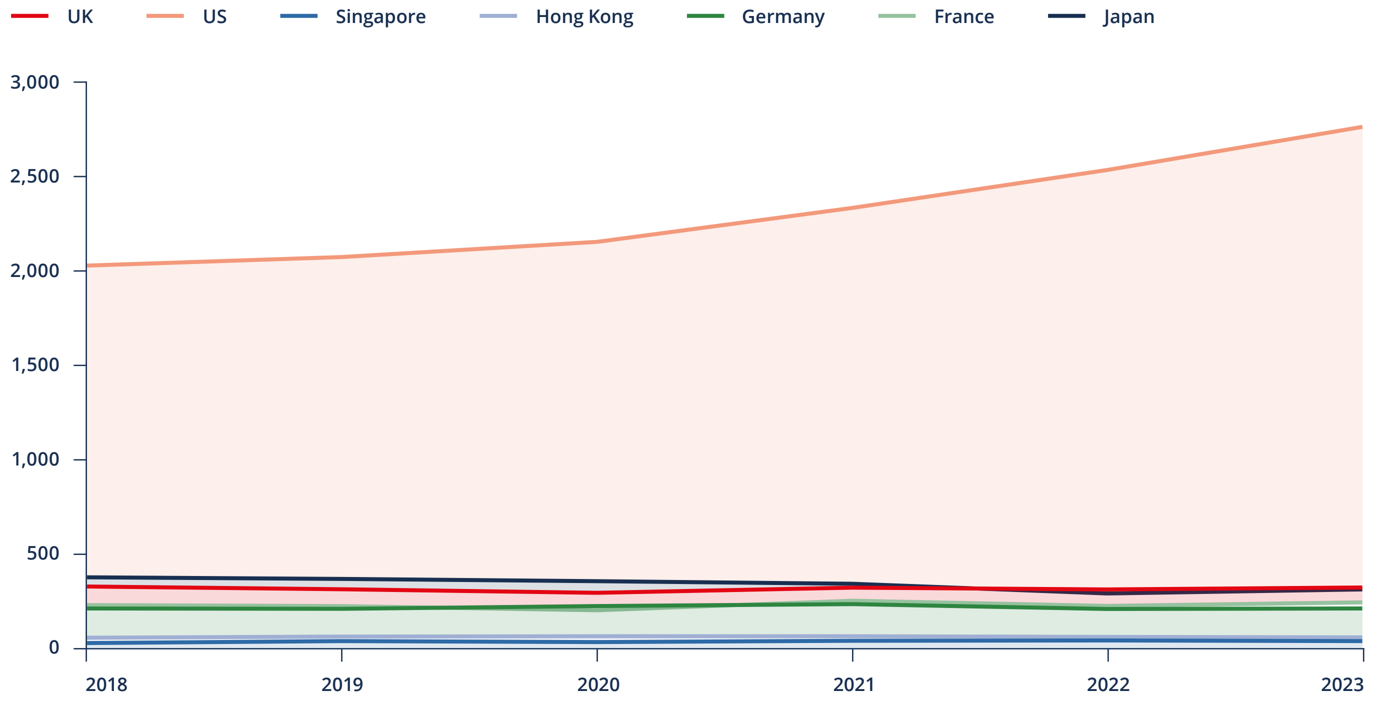
The UK is the world's largest international banking hub, a market worth £4.4tn. The UK is home to the world's largest insurance market, Lloyds, and is the third largest market in the world for insurance business. The UK is also the second largest asset management centre in the world, managing £10.9tn of investment for British and international clients.

The UK continues to be the world's largest centre for cross-border banking, but other financial centres are catching up.

More than £4.4tn, or 14.4% of the outstanding value of international bank lending as of Q4 2023, was owed to banks in the UK. Likewise, with a share of 15.7% (£4.4tn), the UK was the largest centre for cross-border borrowing. The UK's market share in both international lending and borrowing was relatively unchanged in 2023 which suggests other financial centres are carrying out business with other markets. For example, France has doubled the size of its cross-border banking industry since 2016. It is vital that new markets are identified and accessible to UK-based FS companies.[4]

The UK is the largest insurance market in Europe and third largest in the world.

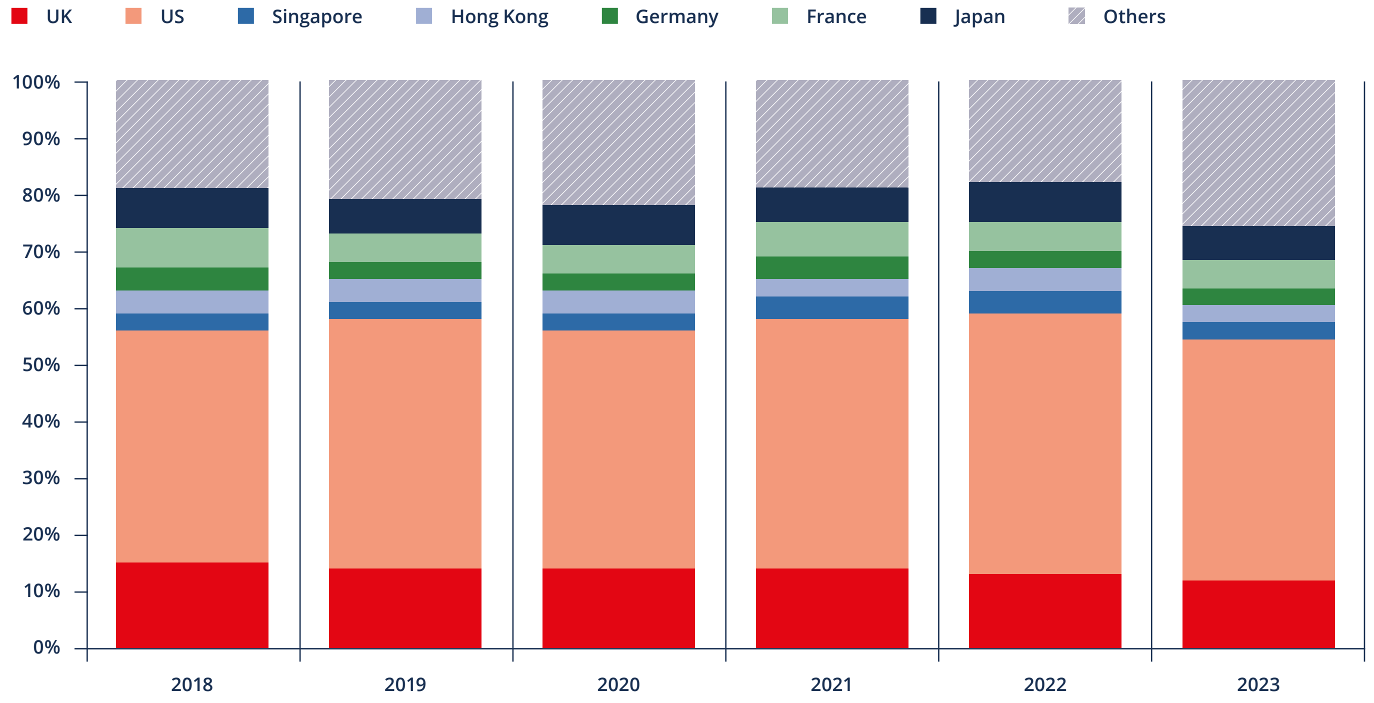
Total insurance premiums, £bn



Source: Swiss Re Institute

The UK is the second largest asset management centre globally.

Share of assets under management per market



Source: the IA, BCG, MAS, HKSFC

The UK's global position between Asia and the US provides a natural advantage for FX and derivatives trading.

UK FS companies have further built on that advantage with world-leading tech and expertise. In 2022 the UK handled a daily average of US$3.8tn in FX trades, double that of the US (the next largest centre) which saw daily average volumes of US$1.9tn. The UK is the leader in OTC derivatives trading but saw a 28% fall in volumes between 2019 and 2022 when financial market activity reduced as interest rates rose. Singapore's OTC derivatives trading increased 34%, but at far lower volumes.[5]

£159bn

of gross written premiums in 2023

London remains the largest underwriting centre in the world by a considerable margin.

In 2022, gross written premiums (GWP) increased by 32% from 2020 to reach £159bn. The US is second largest with £76bn of GWP. The London Market for specialist insurance is also world-leading. It covers 43% of global marine, aviation and energy insurance, 7% of global casualty and financial insurance, and 9% of global property insurance.

Solvency II reforms will make London's insurers even more competitive as £100bn of capital is released over the next ten years. The UK is the third largest insurance market in the world with £363bn of commercial insurance premium volume in 2022.[6]

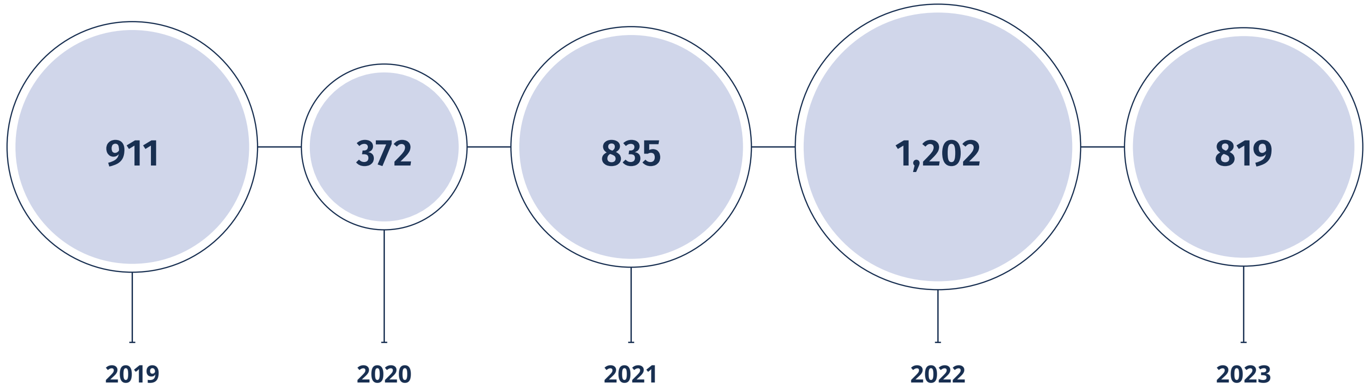
The UK is the second largest asset management centre in the world and the largest in Europe with 12% of global assets under management (AUM).

Strong equity markets in 2023 contributed to an increase in asset manager AUM in the face of negative net sales. Investors have returned to saving in cash as interest rates have risen, which has reduced net sales globally.

Global AUM increased by 22% to £95.5tn. UK AUM increased by 6% to reach £10.9tn; a welcome rebound following a difficult 2022. US AUM increased by 12% in 2023, whereas European fund AUM was unchanged in sterling terms. France saw AUM increase by 12% whereas Germany saw a decline of 12%. The global investor shift toward passive investing and ETFs has benefited other markets such as the US, Luxembourg and Ireland. UK asset managers are adopting new technology, such as fund tokenisation, to improve investor experience and operational efficiency.[7]

The UK is Europe's leading recipient of FS FDI.

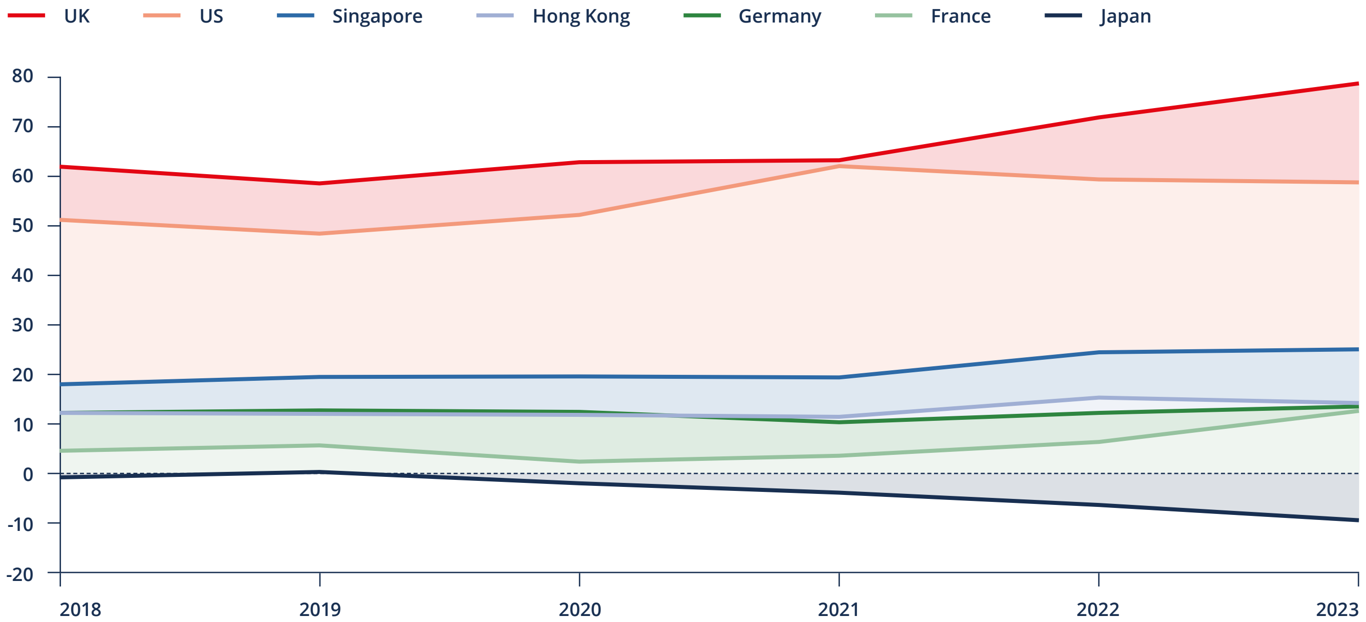
Financial Services FDI, £m



Source: FT FDI

The UK has the world's highest financial services trade surplus.

Value of net FS exports, £bn



Source: UNCTAD

International business leaders and investors recognise the potential in the UK, but we can do more to promote the UK's strengths.

The UK is Europe's top destination for FS foreign direct investment (FDI) and second only to France for total FDI. The UK is the largest net exporter of FS trade with UK firms sharing expertise from across the FS spectrum.

In 2023, the UK attracted international investors with 730 FS projects valued at £819m. On a global scale, however, London trailed the US and Singapore. In 2023, FS FDI into the US was £1.5bn and Singapore saw FS FDI of £1.45bn. In the past five years, the United States has been the largest source of FS FDI into London. Lord Harrington launched his review of FDI in November 2023 which outlined a series of actions to boost FDI to the UK, such as; developing a clear Business Investment Strategy, greater involvement of government ministers in investment oversight, and developing a comprehensive offer to prospective investors.[8]

The UK benefits from the global trade of financial services.

Net FS exports continued to rise in 2023, reaching a record £79bn. FS exports increased by £11bn last year to total £107bn – a 12% gain – whereas the UK imported financial services worth £28bn. The US is the second largest net exporter of financial services at £59bn in 2023. The US exports a higher value of FS, £161bn in 2023, but imports a higher value as well - £102bn last year. This is beneficial to the UK as the US is the top partner for UK FS exports. France doubled its net FS exports in 2023 from £6bn to £12bn. France also increased FS exports to £34bn and imports to £22bn. This increase in FS trade is a positive sign for the UK's position as an international finance hub and points toward growth in the FS sector.[9]

£79bn

of net FS exports in 2023

2.

The UK leading in sustainable finance

2. Sustainable finance

The UK is the global leader in sustainable finance. UK companies have leapt into action to achieve net zero targets, which has in turn generated an ecosystem of best-in-class advisors and experts in emissions reduction. The FS industry also has world-leading expertise in financing and insuring green, sustainable and social impact projects, which is in high demand around the world.

UK investors are keen to invest in sustainability and social impact. But we need to make sure that UK financing and expertise reaches the right projects. Many green investment projects have uncertain outcomes, particularly innovative greentech. Investors need the right regulatory conditions to justify investments into high risk (and possibly high reward) businesses which support sustainable outcomes. A central government department for net zero transition projects could ensure green businesses can access the financial services they need, and improve investor confidence.

Following the election, the government boosted the Department for Energy Security and Net Zero (DESNZ) with a mission-driven approach for greater collaboration between government departments.

The FS industry sees opportunities in:

Greater clarity on net zero policy and co-ordination between the government departments responsible for delivering it.

UK businesses and investors are committed to achieving net zero, but investors need to see the same commitment from government.

An appropriate regulatory environment to boost investment in innovative green companies and projects.

Sustainable investment sometimes necessitates a higher risk appetite, and investors must be supported to take appropriate risk to boost green investment.

Scaling up market infrastructure and other investment opportunities.

Build on the UK's expertise in carbon trading to develop a world-leading carbon market in the UK. Support private investment into nature markets to protect natural ecosystems.

2.1 Financing the transition

The transition to net zero is a priority for governments around the world. But policy commitments are hampered by uncertainty and a patchy approach to regulation which makes it difficult for the UK FS industry to fulfil its role in the transition. Net zero requires a clear strategy that connects industry and finance, ensuring that viable transition projects can get the investment they need to succeed as efficiently as possible. A government department acting as a central hub for approval of net zero projects would provide greater investor confidence and boost flows of capital into the sector.

There is significant appetite for investing in net zero projects – from EV charging infrastructure through to exploratory greentech. However, the FS industry needs firmer timelines for achieving net zero and the regulatory bandwidth to invest. Investors need clear transition pathways and timelines for different sectors to better analyse a project's success. Green projects are sometimes considered high-risk and require higher capital allocations; this is at odds with UK regulators' generally risk-averse culture. Government-approved projects would allay greenwashing concerns and encourage investment.

Blended finance brings together grants from public or philanthropic sources with private capital to make investments more attractive to a wider pool of investors. Blended finance can create investable opportunities in sustainable development areas that struggle to attract private capital by reducing risk for the private investor. This could be an important tool to boost investment in net zero-related projects.

The City of London Corporation proudly supported the Transition Finance Market Review (TFMR) which explored how the UK can establish itself as a global hub for transition finance. TFMR's focus is on how the UK can leverage its existing strengths to become the best place in the world to credibly raise transition capital, invest, and obtain financial and professional services to support a net zero future. Throughout 2024, the TFMR carried out a programme of stakeholder engagement, including roundtables and participation in fora and discourse.

The UK is uniquely positioned to become a leading hub for a robust transition finance market and can use its leadership position for financial and professional services to accelerate the global transition. The Review puts forward recommendations on how to unlock the required levels of finance by creating the right policies, pathways and signals for investment through collaboration between government, investors, business and civil society.

The UK is the country with the most members of the (GFANZ)

UK business is committed to acheiveing net zero.

The UK is the country with the most members of the Glasgow Financial Alliance for Net Zero (GFANZ) (approximately 22% of financial sector net zero Alliance members). GFANZ is a global coalition supporting leading financial institutions committed to accelerating the decarbonisation of the economy. All UK-based Alliance members adopted some climate-related targets in 2022.[10]

By the end of 2022, almost all GFANZ financial institutions had adopted a long-term net zero target (a target for the period 2030-2050). Most of these commitments were made between 2020 and 2022, with few new targets set in 2023. The same trend applies to short-term targets (targets with either a 2025 or 2030 date). This is to be expected, as firms have generally completed their target-setting phase and are shifting focus to delivery against their commitments.[11]

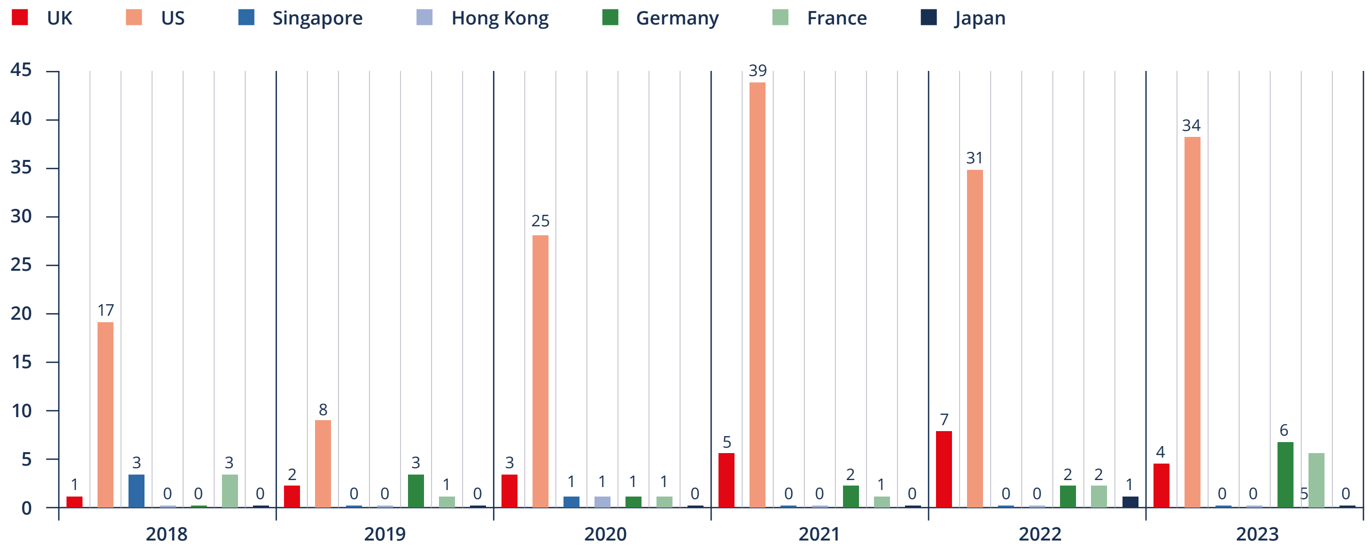
2.2 Green finance

To achieve net zero, we need to boost investment into innovative solutions to reduce carbon emissions. UK companies are leading global environmental innovation. This provides an opportunity to boost investment into UK companies and generate economic growth. The UK FS industry is in a prime position to finance, insure and advise on building the infrastructure needed.

There is an opportunity to boost investment into innovative greentech projects and companies. The UK fell behind France and Germany for greentech investment in 2023. UK investment into greentech fell to £4bn from £7bn in 2022. Conversely, PE and VC investment in greentech in the US, France and Germany all saw increases of between £3bn-4bn. Green investment projects can require higher levels of capital requirements and have uncertain risk profiles. This contrasts with the often risk-averse culture of UK regulators, and the appetite and ability to invest in greentech has therefore not reached its potential.[12]

Greentech investment in the UK slowed in 2023

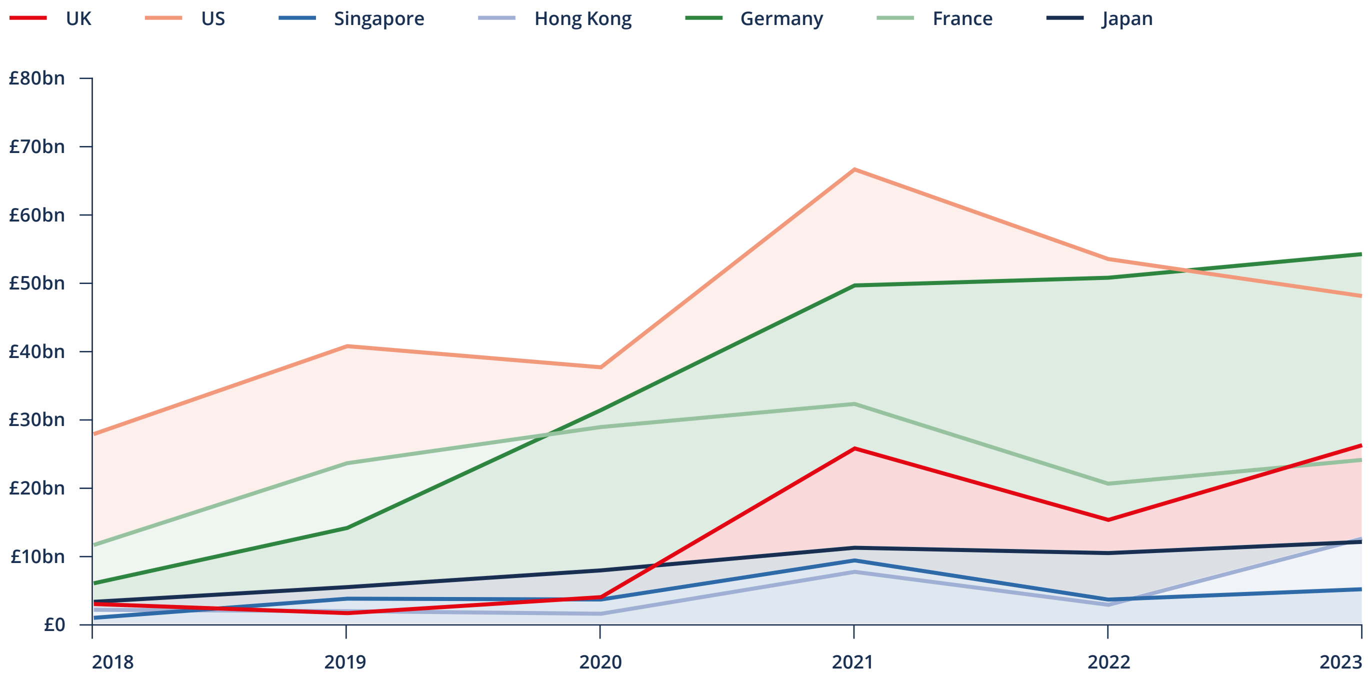
Amount of PE & VC investment in greentech, £bn



Source: Pitchbook

The UK almost doubled its green bond issuance in 2023 through green gilts

Green bonds issuance, £bn



Source: Climate Bonds Initiative

Green bonds finance the infrastructure needed to reduce carbon emissions through projects including energy, buildings and transport. The UK was the fourth largest issuer of green bonds in 2023 with a total issuance of £26bn from government and corporates. In 2023, the ten largest issuers accounted for 39% of green bond volume, led by the UK government, which added £18bn through issuance of green gilts.[13]

£26bn
of green bonds issued in the UK in 2023

The share of assets under management in the UK labelled "responsible" has almost doubled since 2020. This demonstrates UK investor interest in sustainable finance and provides funding for low-carbon or sustainable projects such as green infrastructure. In addition, investment managers with more than three quarters of UK AUM (equal to £7.7tn) have committed to the Net Zero Asset Managers initiative. Retail investors increased their share of sustainable investments to 7.2% of the total market, up from 6.6% in the previous year.[14]

£7.7tn
Total AUM of asset managers that are committed to net-zero

2.3 Innovation in sustainable finance markets

To achieve net zero, we need to boost investment into innovative solutions to reduce carbon emissions. UK companies are leading global environmental innovation. This provides an opportunity to boost investment into UK companies and generate economic growth. The UK FS industry is in a prime position to finance, insure and advise on building the infrastructure needed.

Carbon markets are an essential part of achieving net zero. Given the size of the funding gaps we face, all sources of finance are needed for climate action. Carbon markets channel finance towards critical climate projects and provide debt-free finance to middle and low-income countries. New high-integrity frameworks govern how credits should be labelled and used. A regulated and liquid market ensures buying and selling activity is verifiable, transparent, and trusted.

The UK would benefit from clear policy to support the scaling of the voluntary carbon market. It has been a leader in carbon trading for decades and is home to some of the world's leading experts in developing carbon trading operations and governance standards. However, other global financial centres are vying for position, with Singapore aiming to become an Asian carbon trading hub.

UK firms are a net purchaser of carbon credits. With a world-leading carbon exchange based here, they would benefit from greater liquidity, leading expertise, and English Law. The UK has the infrastructure, talent and business environment to deliver high-integrity markets, and the standards and frameworks to support them.

Carbon dioxide removals (CDR) is another high integrity market the UK could lead in. A CDR credit certifies that a tonne of CO2 has been permanently removed from the atmosphere. Around 41 megatonnes of CDR credits were issued in 2023, corresponding to US$2.7bn of purchased credits. Global issuances of CDR-backed carbon credits have grown at an average annual rate of 23% since 2020.

The UK's 2021 Net Zero Strategy states an ambition to deliver five megatonnes per year of engineered removals by 2030 – a potential market size of over US$500m. The UK is also well placed to significantly scale nature-based solutions, supported by existing woodland and peatland codes. A UK removal market would support the creation of thousands of jobs around the country.[15]

The City of London supports the recommendations of the recently released TFMR. The UK Government can encourage the growth of carbon pricing by taking actions to increase the ambition of its compliance schemes, including implementing a Carbon Border Adjustment Mechanism (CBAM), expanding the scope and ambition of the UK Emissions Trading Scheme (UK ETS) and improving alignment and connectivity to equivalent EU schemes. As such, the TFMR recommends that the UK Government promptly issues its consultation on scaling a high-integrity voluntary carbon market. As part of the consultation, it should seek to provide clarity on the role of carbon credits within best-practice corporate transition plans, leveraging or endorsing the work of leading international bodies.

Nature finance is an opportunity for investors to save natural habitats. Global demands and pressures on nature have dramatically increased, posing significant economic risks as companies rely directly and indirectly on nature's resources and ecosystem services. By 2030 nature loss could cause global GDP reductions of £2.1 trillion each year. To halt this loss, limit global average temperature rises to 1.5°C, and achieve land degradation neutrality, annual investments in nature-based solutions will need to more than triple by 2030.

This finance gap represents a clear opportunity for investors, with several factors pointing to the long-term value of investing in nature-related projects. This includes investing defensively to safeguard existing businesses and revenue streams, as well as leveraging the opportunities from changing consumer demands.

Greenwashing accusations are a serious reputational risk for FS firms and a concern across the industry. This has caused many investors to be cautious in their approach to green investment, particularly concern in equity investment. The proceeds of a bond issue can fund green projects with specific covenants. However, an equity investment is allocated across a company and risks exposing an investor to "brown" assets when their intention is to invest in green projects. Greenhushing also occurs, where fears of greenwashing accusations lead firms to avoid communicating their sustainability commitments and credentials. This is another barrier to efficient allocation of capital to green projects, and makes it hard to track the environmental projects supported by finance companies.

As scrutiny over green credentials rightly increases, we need to ensure that this does not have unintended consequences. A pragmatic, industry-wide approach to scrutinising green investment, particularly for equity investment, is required to release more capital and reduce reputational risk concerns.

3.

A digital-first economy

3. A digital-first economy

The UK is the largest and most important tech ecosystem in Europe. It provides a competitive base for startups and innovative companies, particularly in FS. But the UK lacks the investment firepower to take fast-growing companies into the scale-up stage. Seed capital and Series A investment is available, but scale-up capital often comes from big US VC investors. If the UK is to improve in this area, institutional investors such as pensions, insurers and endowments will need to release capital for scale-up tech investments. This will then allow high potential companies to stay in the UK - and thrive here.

The government has committed to unlocking private capital into critical priority areas, including high growth potential industries. The National Wealth Fund and Pensions Review, aim to achieve these objectives and government is working closely with stakeholders to develop suitable frameworks that drive increased investment.

The UK is the largest and most important tech ecosystem in Europe.

AI is a big opportunity for the UK to boost productivity, operational resilience, and skills.

Tech innovation benefits multiple industries across the entire UK economy.

The UK FS industry's size and international reputation make it a natural partner for fintechs and other fast-growing tech companies. As the lines between finance and tech have blurred, cooperation between regulators and government departments has become an essential part of the competitiveness agenda. The Digital Regulatory Cooperation Forum (DRCF) provides an essential bridge across multiple regulators – Competition and Markets Authority (CMA), FCA, OFCOM and Information Commissioners Office (ICO). However, goverment responsibilities span several departments, and further cooperation is needed to make progress smoother. The Centre for Finance, Innovation and Technology (CFIT) was launched in 2023, with funding from HM Treasury and the City of London Corporation, to accelerate fintech growth and success in the UK. CFIT brings together expertise from across the finance and tech industries to scale innovative solutions and bring them to market.

The financial services industry sees opportunities in:

Releasing capital to scale up innovative UK companies.

The UK is a leading tech ecosystem but lacks investment firepower beyond Seed and Series A stages (scale-up capital usually comes from big US VCs). UK-based institutional investors should invest in the scale-up stage to keep innovative companies in the UK.

Taking a lead in tech and AI innovation and implementation.

AI is a big opportunity for the UK to boost productivity, operational resilience, and skills. The AI safety summit was a starting point, but we need to move the conversation from regulation to innovation. Implementing Digital Verification will take financial innovation to the next level.

A clear plan for the UK tech industry to thrive.

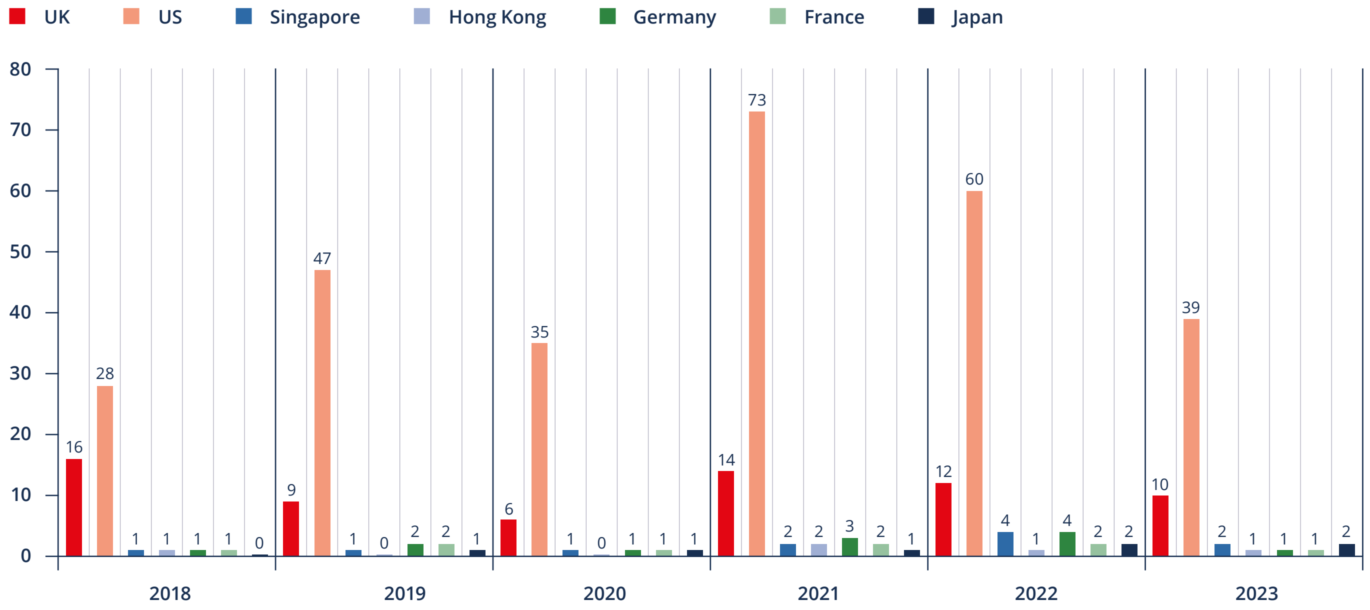
Tech innovation benefits multiple industries and impacts the entire UK economy. Therefore, a focused long-term plan with clear outcomes and co-operation across government departments and regulators will boost the tech sector, innovation and economic growth.

3.1 Raising tech investment levels

Tech companies are the largest in the world and tech is the fastest-growing sector. The UK has brilliant, innovative companies that need capital to support them on their ambitious growth trajectory so that they remain to benefit the wider economy. The UK is also home to one of the largest FS industries in the world, and therefore a natural client of fintechs and other fast-growing tech companies. UK FS is in prime position to provide the necessary finance to these companies, but innovation comes with greater levels of risk, and regulators must smooth the path for larger investors.

The UK is the leading hub for fintech investment in Europe.

Value of PE & VC investment in fintech, £bn



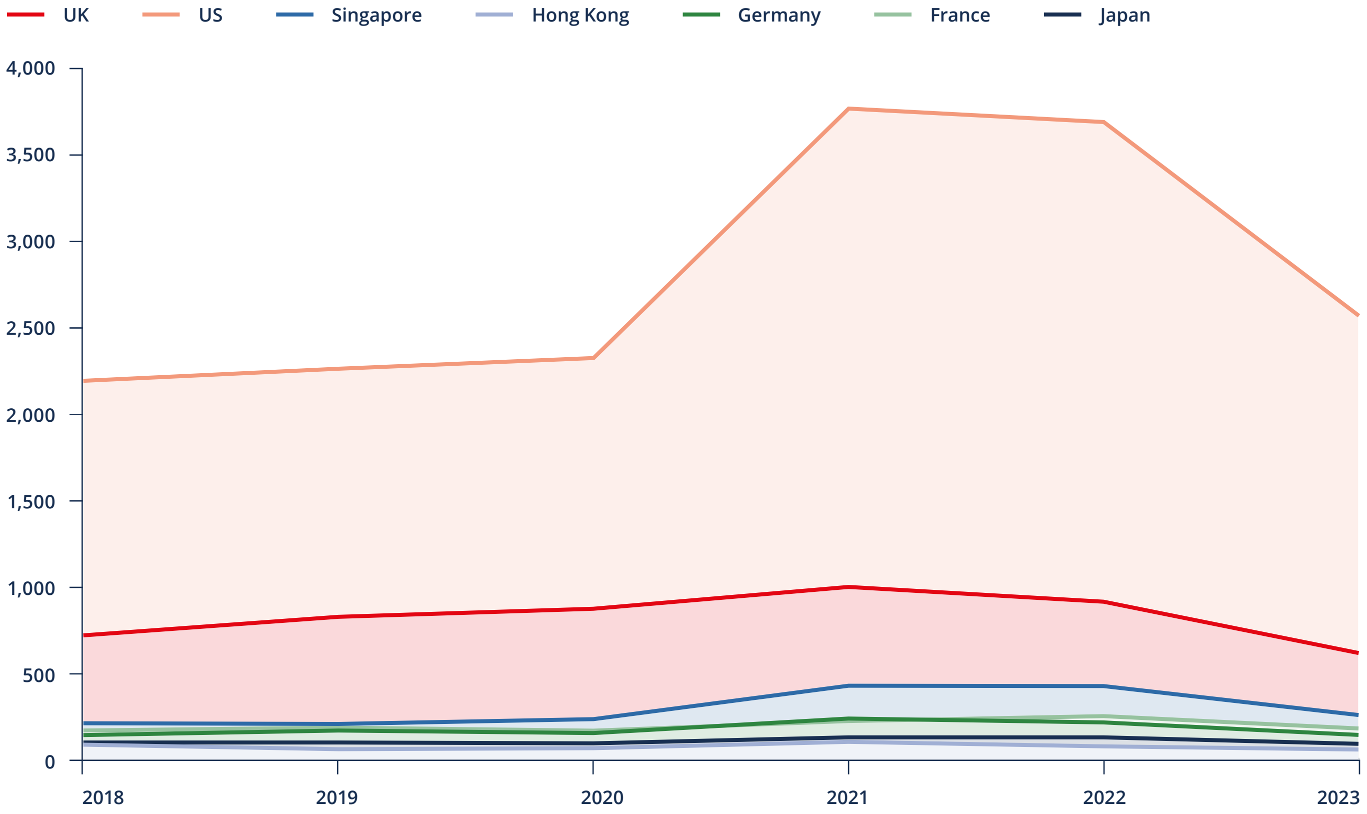
Source: Pitchbook

PE and VC fintech investment is essential to the success of fast-growing companies in the UK. In 2023, it fell by £2bn from the previous year to £10bn, in line with global trends. This was still more investment than in Germany, France, Hong Kong, Japan, and Singapore combined. While the US leads in investment, £39bn in 2023, the UK has potential for growth if it can unlock more scale-up capital for fintechs. In the past five years, there has been £51bn invested in UK fintechs by PE and VC investors. This is £11bn more than Germany, France, Singapore, Hong Kong and Japan combined. The UK's position as a leading financial centre provides fintechs with a solid customer base, in addition to supportive government policy and access to engaged investors.[16]

£10bn
invested in fintechs by PE/VC investors in 2023

The UK has the most fintech investment deals in Europe.

Number of PE & VC fintech deals in market



Source: Pitchbook

The UK is the leading fintech hub in Europe and second largest in the world, after the US. However, the number of new fintechs plateaued across global financial centres (GFCs) in 2023. The UK was home to 746 new fintechs in that year, second only to the US with 2,806 new fintechs. The UK has had a growth rate correlated (with the US) for the number of fintechs since 2017, demonstrating the continued attractiveness of the UK environment. The UK has more fintech HQs than Germany, France, Hong Kong, Japan and Singapore combined.[17]

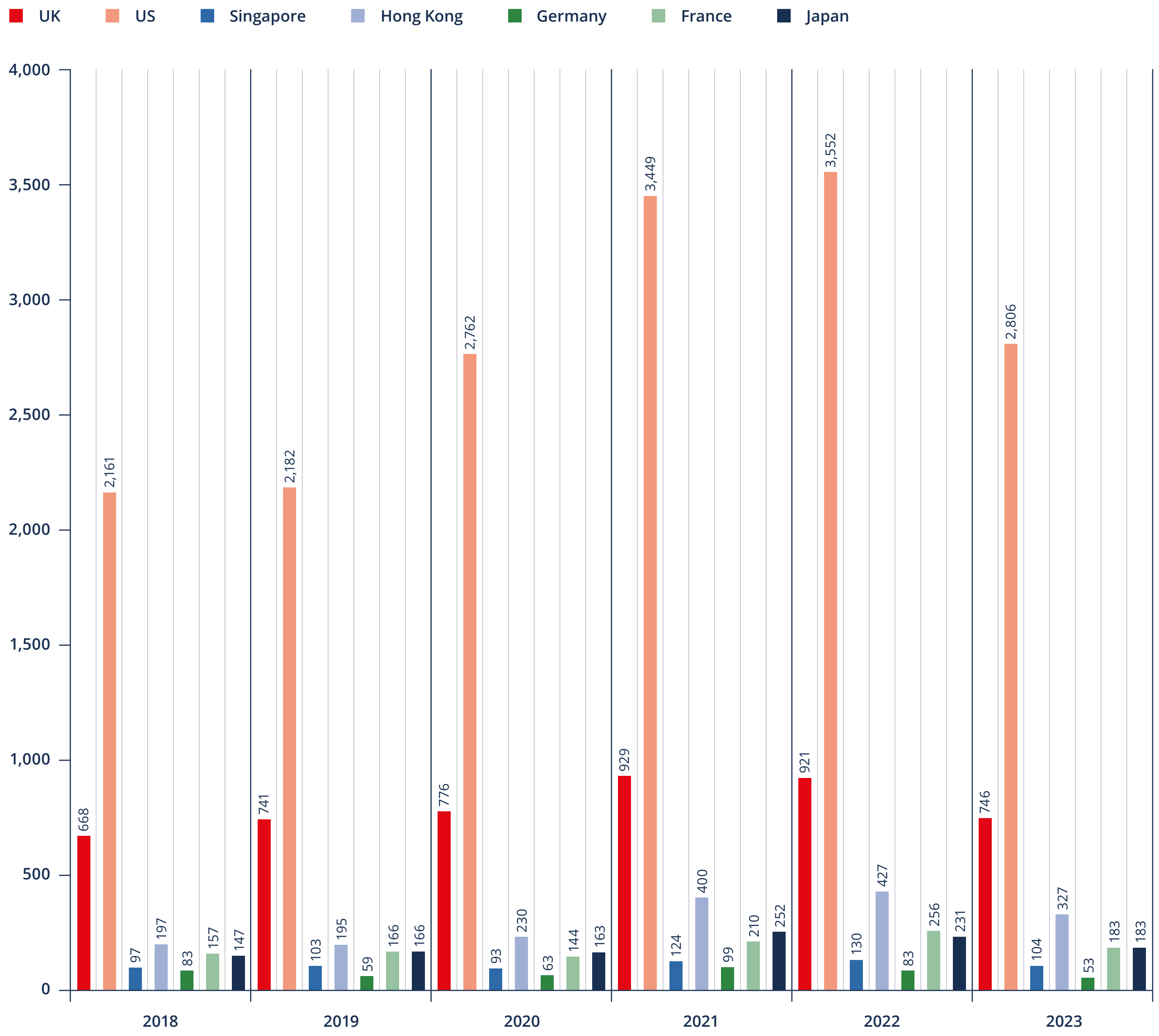
The UK is home to 175 unicorns – companies valued at over US$1bn – up from 149 in 2023. The UK ranks third globally for number of unicorns, behind the US and China. These fast-growing companies drive innovation, create jobs, and stimulate the UK economy. Fintechs account for 53 of them (30%), a higher share than in any other financial centre.

Innovate Finance, an independent trade body for fintech supported by the City of London, recently launched a Unicorn Council for UK Fintech. The group brings together fintech founders and CEOs to provide policy recommendations that will support growth in the fintech sector. Climatetech was the largest growth area for unicorns in 2023, with UK companies focused on reducing carbon emissions receiving the highest amount of VC investment.[18]

175
unicorns have HQs in the UK

The UK is Europe's largest fintech ecosystem.

Number of new fintechs operating in market



Source: Cambridge Fintech Ecosystem Atlas (ccaf.io)

3.2 Becoming a digital-first economy

Innovative tech boosts investment, growth and productivity. According to the Department for Science, Innovation and Technology (DSIT), building a smart data economy could unlock £149bn of organisational efficiency and £66bn of new business and innovation opportunities for the UK economy.

AI is a huge opportunity for the UK to take a lead in cutting edge technology. Google estimate that AI tools and automation could boost the UK economy by £400bn by 2030. The UK launched the global AI Safety Summit in 2023, which was a resounding success and shows the UK's leadership on safety and regulation. Following the Summit, the UK set up the AI Safety Institute and a new AI safety evaluations platform. However, the UK needs to grasp the innovative capabilities of AI and not just focus on safety and regulation. To address this, the government will respond to the forthcoming publication of an AI Action Plan, which provides recommendations on how AI can drive economic growth. The growth opportunity in AI is in new applications that improve business operations and profitability as well as enhancing customer products, services, and experience. To date, there has been a focus on automation, but AI also has a significant role to play in improving security and boosting operational resilience. It also has the potential to complement people's skillsets and improve productivity. By encouraging the development and implementation of AI within financial and professional services (FPS) businesses, the UK has an opportunity to boost international competitiveness and economic growth by £35bn.[19]

The UK approach has been not to regulate specifically in relation to AI. This has been welcomed by UK FPS for the most part, but also leaves some uncertainty about what steps firms should take when they are deploying AI within their organisation. Further clarity is needed from both industry and regulators on how AI can be applied securely to financial products and processes. FS companies and regulators must be certain about how the AI will manage the product. As a result, opportunities to use AI in FS are not yet at their full potential: FS and tech innovation groups need to work together to progress innovation and adoption in the industry.

Regulatory responsibility for AI, and other digital finance innovation, is split across multiple regulators which is slowing growth. The City of London supports the work of the DRCF which has set up an AI and Digital Hub to provide a cross-regulator response to queries in relation to AI. The Digital Regulation Cooperation Forum (DRCF) brings together four UK regulators with responsibilities for digital regulation – the Competition and Markets Authority (CMA), the Financial Conduct Authority (FCA), the Information Commissioner's Office (ICO) and Ofcom. These regulators set up the DRCF in 2020 to make it easier for them to collaborate on digital regulatory matters. DRCF help engage with regulation by providing a cross-regulator response.

Digital verification (DV) makes it possible for individuals or businesses to verify their identity using digital means and/or their digital footprint. A Digital ID can be used as your passport across government and private sector organisations and could improve everyday activities such as seeing a GP as well as lifetime events like registering a marriage or buying a house. DV is an opportunity to put people in control of their data, but public opinion is mixed. A promotional campaign run by the tech industry and government could help boost public acceptance.

Within FS, DV could improve fraud detection and build new efficiencies into anti-money laundering (AML) checks. Reducing fraud and the cost of policing it would boost FS growth and profitability. City of London's Vision for Economic Growth report underscores the significant economic potential of DV, projecting a £4.8bn boost to the UK economy from 2024 to 2030.

We already have Open Banking, but DV is a step toward open finance – the ability to share your digital ID across financial companies to make complex financial transactions run more smoothly. The timely passing of the Data (Use and Access) Bill will ensure that the UK Government is taking steps to provide the right frameworks to support the introduction of DV. Additionally, the FS industry needs to explore specific use cases in which the potential gains from DV, such as mitigating fraud, will offset the costs of implementation.

In June 2024, the Centre for Finance, Innovation and Technology (CFIT) announced its Coalition on Enhanced Digital Verification for corporates to combat economic crime. This Coalition includes 35 partners from across the financial innovation ecosystem, and prototypes are now being developed. As a founder of CFIT, alongside HM Treasury, City Corporation continues to work closely with them to unblock barriers to market growth. The City of London Corporation has interviewed Chief Compliance Officers of incumbent banks, challenger banks and fintechs to understand blockers and risks to adoption of DV at scale, any tension points in implementation, and their outlook on the DV market, including potentially attractive use cases. This engagement has revealed strong industry appetite for a Trust Framework and supporting Bill. CFIT's upcoming coalition is one example of cross-market work that seeks to demonstrate the utility of the Trust Framework, focused on fighting economic crime through enhanced DV.

Financial crime is another important issue and a barrier to growth and competitiveness. The National Crime Agency (NCA) estimates that fraud and financial crime costs the economy £290bn a year with money laundering alone costing £100bn a year. And, while technology might be an enabler of financial crime, it is also a critical part of the solution.

The Authorised Push Payment (APP) fraud project is a year-long partnership between The City of London Corporation and the FCA, concluded in September 2024. Working with Smart Data Foundry, the project involved the creation of a synthetic data set to support the development of technology solutions that will help FS to combat APP fraud. This is hosted on the Permanent Digital Sandbox and remains available for innovators to access. The dataset is being enhanced to make sure that it provides the maximum utility for those developing solutions to this significant threat.

Data is the key commodity of tech, finance and environmental innovation. Without fast, secure data transfer and storage, our financial systems won't be able to communicate, AI won't assist us, and electric vehicles will not operate. Data operations are essential to the UK's international competitiveness. As an international finance hub, the UK must ensure that data can be safely transferred cross-border and cross-industry, to keep its competitive edge. Server capacity is also critical to the success of AI and digital finance. AI needs huge datasets and lots of computing power to develop. The current high cost of energy in the UK makes data servers located here less viable, however, tech companies recognise the importance of the UK market. Microsoft recently invested £2.5bn in UK data infrastructure and Google invested £800m in constructing a data centre in Hertfordshire.

3.3 Future talent and innovation

The UK needs a clear, government-led plan on the future of tech and innovation. Cooperation across government departments, regulators and industry will boost growth and investment for the UK economy.

The UK is home to some of the best data science, information technology and AI university courses in the world. Our pipeline of high-quality tech and innovation skills needs to be matched with employment opportunities. The fast and high turnover of tech employees means employers are less willing to invest in training, which in turn is increasing the skills gap. A culture of training is needed to turn talented graduates into skilled employees.

The City of London-led 'Women Pivoting to Digital Taskforce' brings together business, government, third sector, and industry groups to support women from non-technical backgrounds to pivot to digital roles. The aim is to address the underrepresentation of women in digital careers by providing the vital skills needed to future-proof the digital workforce. The focus will be on women with over five years of workforce experience and the transferable skills to enable them move into new roles.

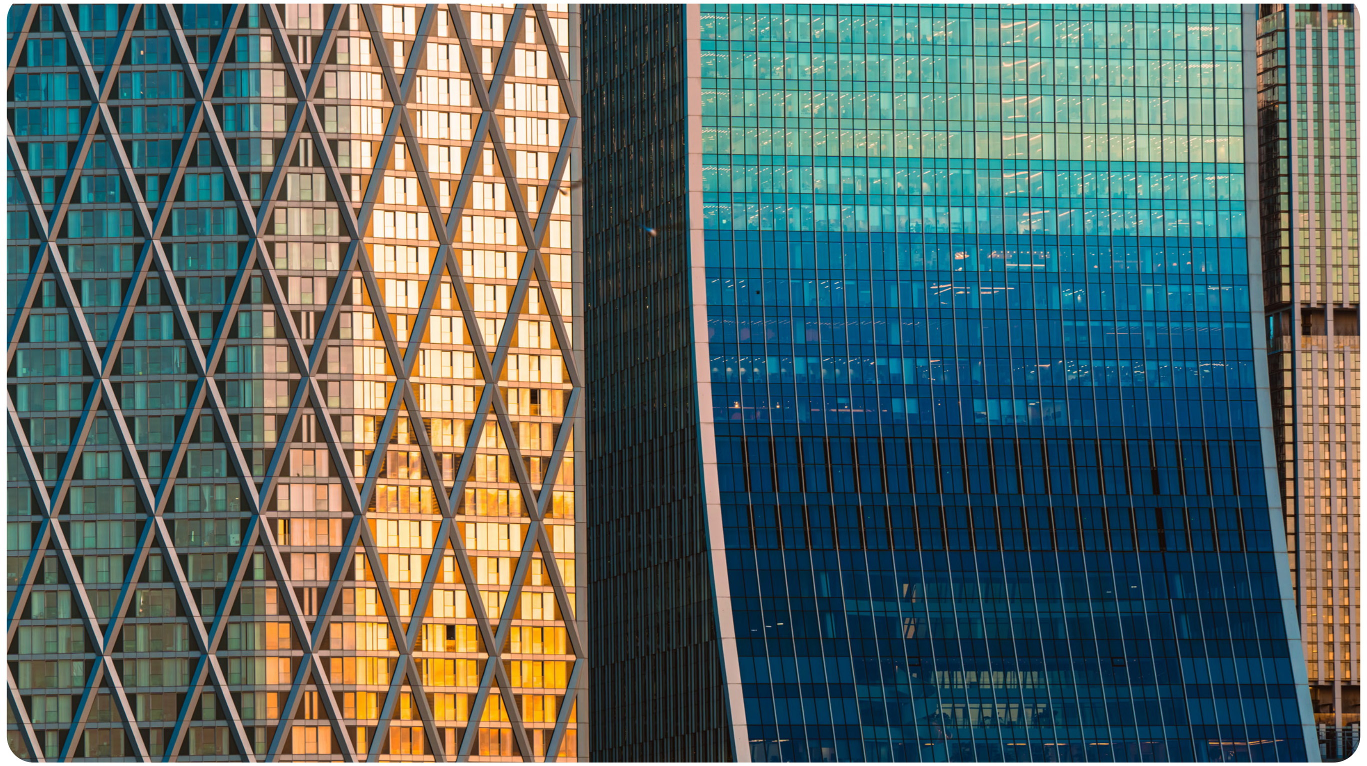
Responsibility for data and digital safeguarding sits across multiple government departments. An action plan with focused outcomes would encourage alignment across the board. Using key developments in open banking as an example, the next step is to evolve the work carried out to date to develop open finance. CFIT's inaugural coalition demonstrated the benefits of open finance to both consumers and businesses, and it continues to build out this work in real-world use cases. Following that work, HM Treasury supported the creation of the Open Finance Taskforce, which was chaired by CFIT and looked at how the further proliferation of datasets could unlock even more opportunities for businesses.

The role of synthetic data in driving innovation is still being explored, for example the APP Fraud project. The FCA is very interested in this and has convened a Synthetic Data Expert Group to continue building out work in this area.

"The aim is to address the underrepresentation of women in digital careers by providing the vital skills needed to future-proof the digital workforce."

4.

Supporting the conditions for growth



4. Supporting the conditions for growth

An effective regulatory regime and access to highly skilled talent are key levers for economic growth. Last year saw the introduction of the Financial Services and Markets Act 2023, Consumer Duty, and Edinburgh Reforms. Although these reforms delivered benefits to UK FS businesses and their customers, their implementation and ongoing compliance monitoring also generated significant costs for many UK businesses. The industry would benefit from allowing these regulatory changes to take effect before further change is put in place.

"The breadth and depth of the UK's highly skilled workforce and world-leading universities are hugely beneficial to FS companies."

The ability to hire top talent is often cited by global firms as a reason for setting up in the UK. The breadth and depth of the UK's highly skilled workforce and world-leading universities are hugely beneficial to FS companies. In 2022, there were 1 million people employed in FS across the UK with an additional 1.4 million people in related professional services roles. Two thirds of FPS jobs are based outside of London. Financial services is one of the most productive industries in the UK, generating £177k of economic output per employee in 2022.

With low unemployment and a tight labour market, the need to train, reskill and future-proof the FS workforce has never been more important. We need to ensure that FS companies have access to the necessary skills in finance and tech, and that graduates from top universities are retained in the UK.

The financial services industry sees opportunities in:

An appropriate culture of risk-taking for professional investors.

Blurring the lines between consumer protection and professional investment activity has possibly reduced investment into high potential companies. Regulators' approach to risk-taking should be proportionate to the investor type.

Regulator focus on growth and international competitiveness.

The FCA and PRA need to fully implement their new secondary objectives to support the international competitiveness and growth of the UK economy in the medium to long term. A more rigorous cost benefit regime should ensure that the expected benefits of rule changes outweigh the expects costs.

Closing the skills gaps and boosting training.

Closing the skills gap, particularly in tech and digital skills, will boost productivity and growth of the FS industry. Staff retention and redeployment to growth areas are essential in tight labour market conditions.

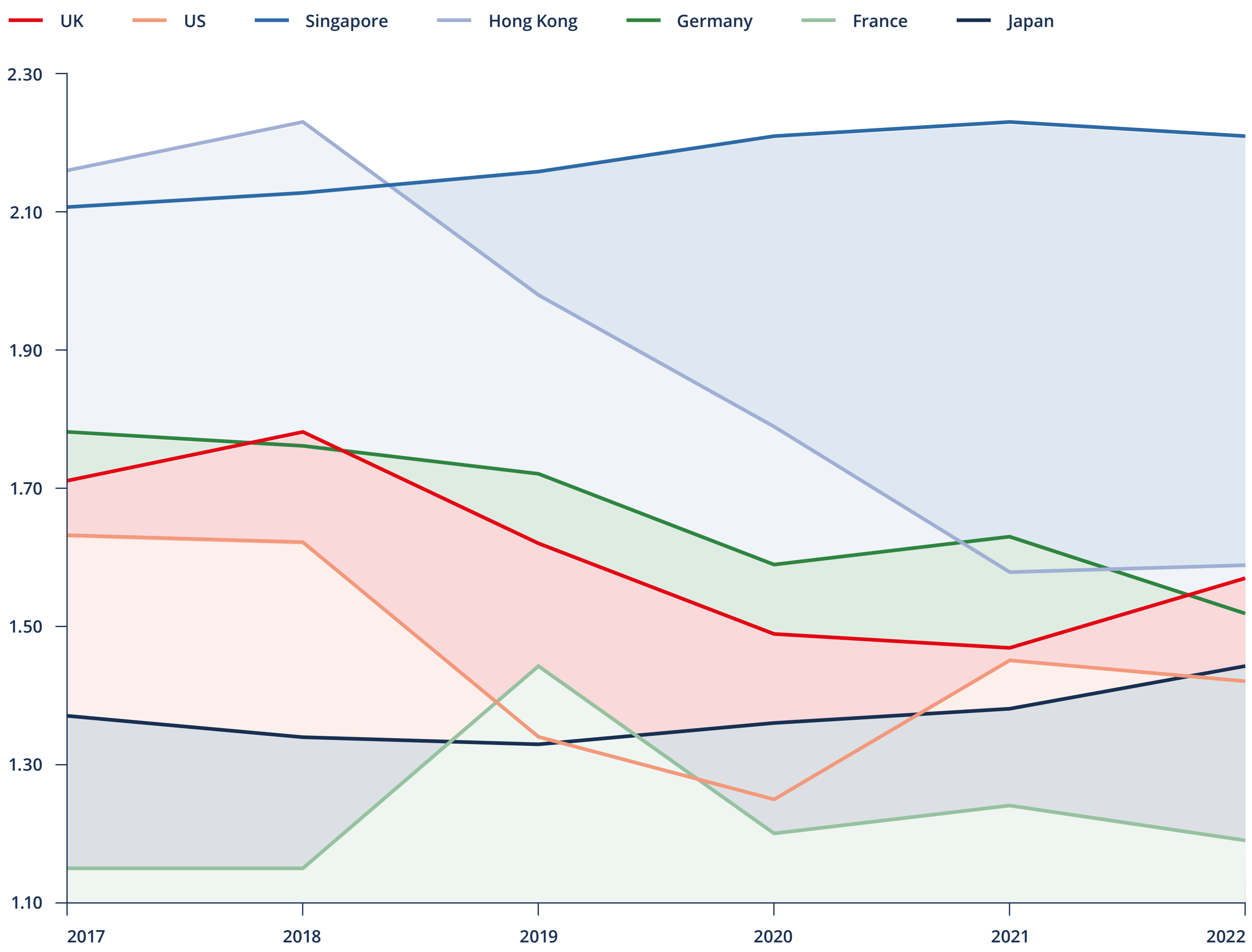
4.1 Regulatory regime

The UK FS industry generally has a positive view of the UK's regulatory regime. Additional investment in people and technology has improved regulatory operations. However, industry professionals are feeling overburdened by regulatory changes and requests for information. Firms have reported significant costs to respond to regulatory information requests. FS industry growth is also being held back by a risk-averse culture within regulators, which is reducing investment in high-growth potential markets such as tech and sustainable finance.

The UK saw the largest increase in the perception of regulatory quality in 2022 as regulatory operations have improved. The UK's regulatory quality score increased by 7% year-on-year, whereas that in the US (-2%), Singapore (-1%), France (-4%) and Germany (-7%) all declined. As the sweeping changes introduced in 2023 settle in, the UK's regulatory quality and reputation should improve further.[20]

Regulatory quality in the UK improved in 2022.

Perceived regulatory quality on a scale of -2.5 (worst) to 2.5 (best)



Source: World Bank

4.2 Regulatory operations

Operational functions at UK regulators have improved, particularly at the FCA which has increased investment in people and tech to improve its operational efficiency. The FCA is now meeting its targets for processing approved persons applications. In 2023/24 97% of applications were processed within the FCA's stipulated three month timeframe. This is the first time the target has been met on an annual basis since 2019/20. Regulators have increased engagement with FS firms and have been more responsive to firms seeking guidance. However, FS firms would like clearer guidance on upcoming regulatory changes and clarity on the long-term regulatory landscape. Firms that fall under the scope of multiple regulators also report a lack of regulatory alignment as a barrier to carrying out business.

Regulatory burden is weighing heavily on the FS industry and harms international competitiveness. Some firms have reported costs of over £600k to respond to regulatory information requests. A more proportional approach to regulation will help FS SMEs grow and thrive. Regulation – including reporting requirements and information requests – should be proportionate to the regulated activities undertaken, client type and size of the firm. The cost of implementing regulatory changes should also be considered more appropriately in the consultation process; recent regulatory changes have cost the industry much more than was estimated in regulators' cost-benefit analyses. The FCA's new Cost Benefit Analysis Panel should drive rigour in this area.

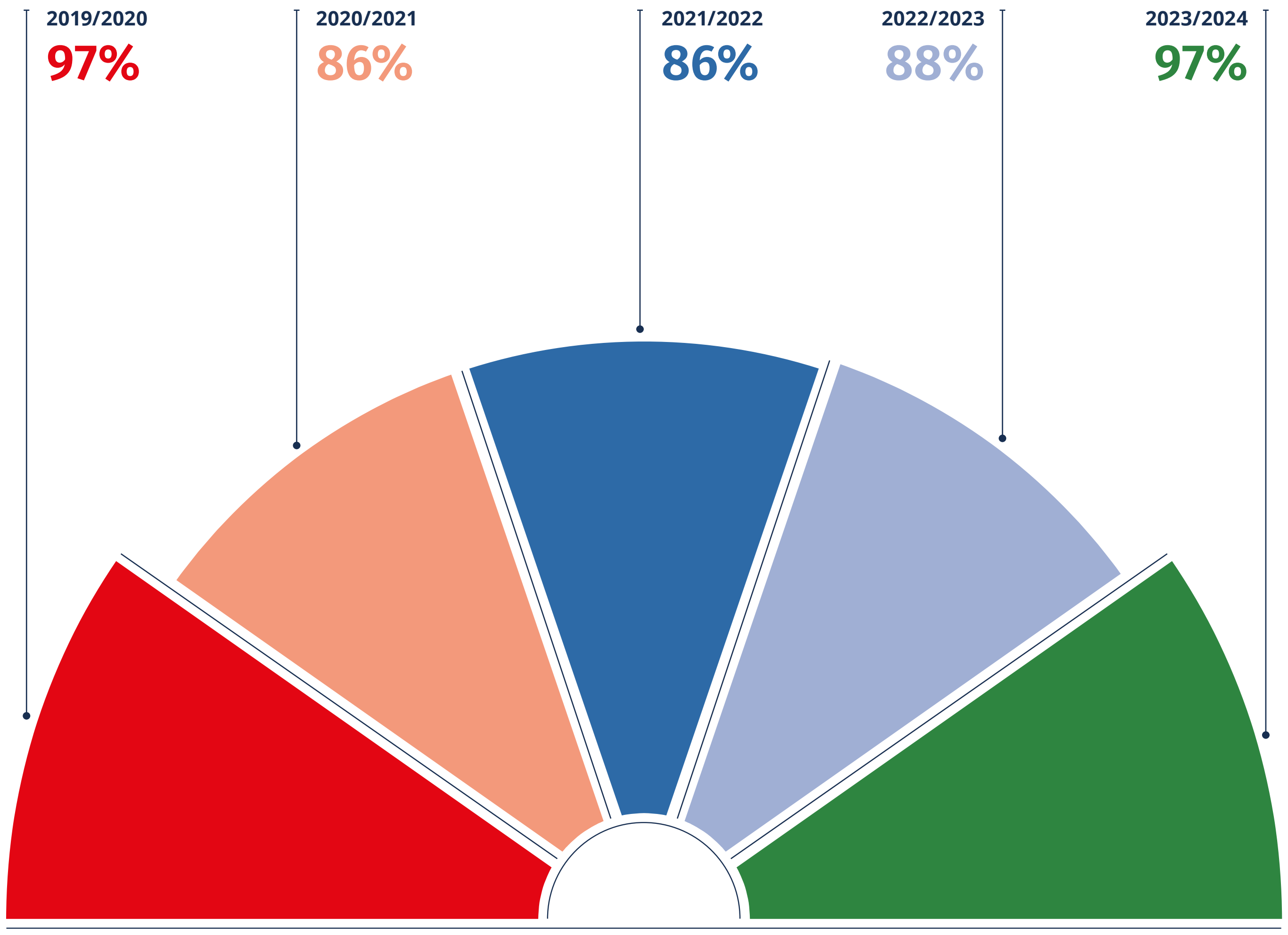
A culture of risk aversion within the UK – including within our regulators – is minimising opportunities for growth. High-growth potential companies are therefore seeking scale-up capital from overseas investors, particularly US VCs, which influences them to leave the UK. Investment in key growth areas such as tech and sustainability is often higher risk due to uncertain return profiles and timescales.

There has also been a blurring of lines between consumer protection and professional investment activity which reduces the opportunity for UK investment companies to allocate to these sectors. To generate growth, we need to reconsider our attitude to risk to enable deeper pools of domestic capital and ensure scale-up firms can grow and thrive in the UK. The regulators' new secondary objective on growth and competitiveness should lead to a more balanced risk appetite.

Since the Covid-19 pandemic, there has been a sharp decline in the perception of government effectiveness, the quality of public services, and the ability of governments to formulate and implement policies and regulation that promote economic growth. In 2022, the UK government was rated more effective than the French government, but below other financial centres. Japan is the only government of the seven GFCs we monitor that has seen an increase in its government effectiveness rating since 2019 (+2%) The UK, US, France and Germany have all seen a reduction in their perceived government effectiveness of around 15% since 2019.[21]

The FCA is meeting its target for approved persons applications.

% of approved person applications (SM&CR, CF and SIF) responded to within three months



Source: FCA

4.3 Talent and skills

FS companies in the UK benefit from a highly skilled workforce with a strong pipeline of graduates in relevant subjects. The UK is home to some of the world's top talent across banking, insurance, asset management and tech. Firms can also draw on world-leading specialists in sustainable finance, AI and legal services. The UK is home to some of the best universities in the world; attracting top graduates into FS roles is essential in ensuring the UK's long-term international competitiveness.

The number of FS jobs fell slightly in 2022. There were 2.4 million people working in the UK FPS sector, down from 2.5 million in 2021. In 2022, 1 million people worked in financial services and 1.4 million in related professional services. Two thirds of these jobs are outside of London.[22]

The share of international workers in FS increased sharply since the Covid-19 pandemic. In 2023, 25% of workers in financial services were born outside of the UK. International workers complement the UK's domestic workforce and help businesses establish relationships with clients and partners from around the world.[23]

The UK's overall attractiveness to highly-skilled international talent has declined since 2018. Out of the seven GFCs we monitor, the UK ranks sixth with only Japan considered to be less attractive than the UK. Work visas in the UK are costlier than most other GFCs (equivalent to the US), but relatively easier and quicker to apply for. Recent changes to the minimum required salary for immigrant workers in the UK have made it harder for FS firms to hire outside of London, particularly in Scotland.[24]

UK companies have a culture of not prioritising employee training. Despite improvements, the UK ranks lowest among GFCs for attitudes towards employee training, according to a survey of business leaders. Employers in the UK are more likely to view training and reskilling as time taken away from an employee's role. The culture around training in the UK must be addressed, as skills gaps become exacerbated and the pool of trained talent diminishes. The 'redundancy and rehire' approach observed across the FS industry is costly and reduces international competitiveness. This is particularly acute for new starters and graduates, who despite being highly educated aren't receiving enough practical training in the workplace.

Working practices in other financial centres see employees moved into growth areas at the same company. Internal mobility instils longevity of employment, protects company culture, and keeps valuable experience within the company.[25]

Improving tech and digital skills is vital for the UK to remain internationally competitive. The rapid introduction of AI across financial and professional services is predicted to add £35bn to the sector over the next five years. But rather than replacing workers, AI is expected to complement human skills and knowledge to boost productivity. The skills needed to implement AI and other advanced tech across the FPS industry are changing quickly. To benefit from technological advancements, we need the workforce to implement them. Both the industry and government must invest in tech and digital skills to future-proof the industry and the workforce.[26]

£35bn

Predicted boost to the FPS sector in the next five years as a result of the introduction of AI

25%

financial services workers in 2023 were born outside of the UK

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- M&G
- Moodys
- Morgan Stanley
- Oliver Wyman
- Phoenix Group
- PWC
- Societe Generale
- TCUK
- The Investment Association
- UK Finance

Endnotes

1. BIS 2024

2. LSEG 2024

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5. BIS 2023

6. SwissRE 2024, London Market Group 2024

7. Investment Association 2023, BCG 2023

8. fDi Markets, a service from The Financial Times 2024

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About the Global City campaign

The Global City campaign is the City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

theglobalcity.uk

About the City of London Corporation

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

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