

# An indispensable industry

Financial services  
in the UK





# Introduction

Financial services touch our lives in so many ways. We rely on them to safeguard our money, to help us save for the future and to protect us against the many risks we face. They provide one in 14 jobs in the UK, and help finance the organisations millions of others work for. They have an essential role in tackling the great challenges of the day, such as climate change and international development.

The financial services industry and associated professional services also provide vital support for the UK economy. Between them, they employ around two million people, the majority outside London and the South East. They contribute billions of pounds of tax to the exchequer every year, and earn valuable export earnings for the country. And British skills and experience have turned London into a leading international finance centre which hosts many of the world's premier financial markets.

The international financial crisis that began in the autumn of 2007 led many to question the role of the financial services industry. Hard lessons have been learnt, and important reforms have been undertaken both in the UK and abroad. However, it is vital not to

lose sight of the importance of financial and associated professional services to the UK, and this booklet brings together facts and figures to demonstrate their contribution. The UK's prosperity depends on a continuing partnership between the financial and professional services industry and the wider economy.

The City of London Corporation is responsible for looking after the Square Mile, where many global financial businesses operate. In partnership with TheCityUK, which promotes UK-based financial and professional services, it also aspires to lead the debate about the future of financial services on behalf of the entire UK industry. I hope that this publication will in a modest way contribute to public understanding of the vital role played by the industry domestically and globally.



Sir Richard Lambert  
Former Director General of the CBI

# Acknowledgements

We are grateful to the following organisations which have helped us in compiling this booklet and whose websites contain further detailed information:

**TheCityUK** – created in 2010 to champion the international competitiveness of the UK-based financial services industry, it produces authoritative reports on industry sectors and products ([www.thecityuk.com](http://www.thecityuk.com))

**Association of British Insurers (ABI)** – the voice of the UK's insurance, investment and long-term savings industry ([www.abi.org.uk](http://www.abi.org.uk))

**British Bankers' Association (BBA)** – the trade association for over 200 banks and 70 professional associate firms ([www.bba.org.uk](http://www.bba.org.uk))

**British Private Equity & Venture Capital Association (BVCA)** – representing the private equity and venture capital industry in the UK ([www.bvca.co.uk](http://www.bvca.co.uk))

**London Stock Exchange** – Europe's leading exchange group ([www.londonstockexchange.com](http://www.londonstockexchange.com))

**Payments Council** – bringing together payment service providers, organisations with a commercial interest in payments and end users ([www.paymentscouncil.org.uk](http://www.paymentscouncil.org.uk))

## About us

The City of London Corporation provides local government and policing services for the financial and commercial heart of Britain, the 'Square Mile'. As part of our role we provide an evidence base for policy making via a substantial research programme. Our research monitors emerging trends, key market and sector developments relating to the City and its businesses, and the economies of the City and wider London. Regular reports include an annual evaluation of the tax contribution of the UK financial services industry and a review of the economic outlook for London. Other recent research themes have included the development of London as a centre for social enterprise financing expertise, the future of aviation capacity in London, and the role, profile and needs of small and medium sized enterprises in and around the City.

For more details, see [www.cityoflondon.gov.uk/economicresearch](http://www.cityoflondon.gov.uk/economicresearch)

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# Executive summary

## The UK – world-class in financial services

The financial services sector is responsible for 9.6% of national output, while associated professional services contribute a further 4.9%. The UK is the world's largest exporter of financial services, generating a trade surplus of over £47bn in 2011. The industry contributed £63bn in tax to the exchequer in 2011-12 – 11.6% of tax receipts.

Banking is the largest employer in financial services, followed by insurance, securities markets and fund management. The UK is a leading international provider of professional and support services such as legal services, accountancy, management consultancy, dispute resolution and maritime services.

London is regularly rated the top global financial services centre, and is home to many of the world's leading markets and exchanges, dispute resolution bodies and professional institutions. Much of this activity is concentrated in the City of London and Canary Wharf, the two main financial districts.

The City's financial and professional services sectors are estimated to have contributed £35bn to the UK's national output in 2012, while London as a

whole contributed £10bn more to the exchequer in 2011-12 than it drew out in public spending.

Financial and associated professional services make a vital contribution to the UK economy, because of the distinct competitive advantage the industry has built up over the longer term. It is also central to the daily lives of people and businesses in the UK and internationally – a jewel in Britain's crown.

## Creating jobs, powering growth

Financial services employ more than 1m people in the UK, while almost another 1m work in associated professional services. Of these 2m employees, more than half work outside London and the South East. While London is the country's largest financial centre, there are thriving financial and professional services districts in many of the UK's larger cities.

UK banks cater for around 4m small businesses, lending them just under £38bn at the start of 2013. Larger businesses raised almost £15bn on the UK stock markets in 2012 to finance their investments. Venture capital firms invested £343m in innovative and growing businesses, while £1.5bn

of expansion capital was provided by venture capital and private equity firms.

### **Essential for our everyday lives**

Almost everyone in the UK has a bank account which they can use to pay bills and carry out other transactions. The UK is one of only three countries where bank customers can make and receive immediate payments 24 hours a day, 365 days a year. UK customers made 930m online card purchases in 2012, to a total value of £69bn. The success of the savings industry in all its forms means that the average pensioner household no longer relies on state benefits for the bulk of its income.

The financial services industry has helped millions buy their homes with mortgages. It has also financed the growth of privately rented accommodation, as well as social housing provided by housing associations.

Insurance companies paid out more than £30bn in 2012 on claims for general business such as vehicle, property and accident cover, while £196bn was paid out on long-term life assurance and pensions policies.

### **Contributing to global prosperity**

The City of London helps grease the wheels of international trade, hosting the world's largest foreign exchange market with average daily turnover in October 2012 of \$1,919bn. The financial and associated professional services industry is at the heart of the global economy. UK banks originate 19% of loans raised overseas – more than those in any other country. UK fund managers look after more than £1,900bn of assets on behalf of overseas clients.

The industry makes a significant contribution to sustainable development. It is the largest lender to emerging economies and a leading investor in their businesses, as well as infrastructure projects in water, telecoms and transport. It raises funds to lend to the world's poorest entrepreneurs, and to pay for campaigns which immunise children and adults against potentially fatal diseases.

The UK has taken the lead in tackling greenhouse gas emissions, and the City of London has become the world's carbon trading capital. UK-based institutions have invested large sums in cleaning up emissions in emerging markets and in cleantech renewable and related projects.



# The UK – world-class in financial services

## Vital support for the economy

The financial services sector – which includes banking, insurance, fund management and securities dealing – is one of the UK's largest industries. It contributed £129bn to the UK economy in 2011, 9.6% of that year's national output. Professional services closely connected to the financial sector such as accountancy, legal services, management consultancy and maritime services contributed a further 4.9%. That was a combined contribution of over £195bn – more than the £145bn output of the entire UK manufacturing sector.

The contribution of financial services to the UK economy is higher than the US share of 7.6% and Japan's 4.9% – and much higher than in France and Germany where financial services contribute 4.7% and 4.2% to GDP

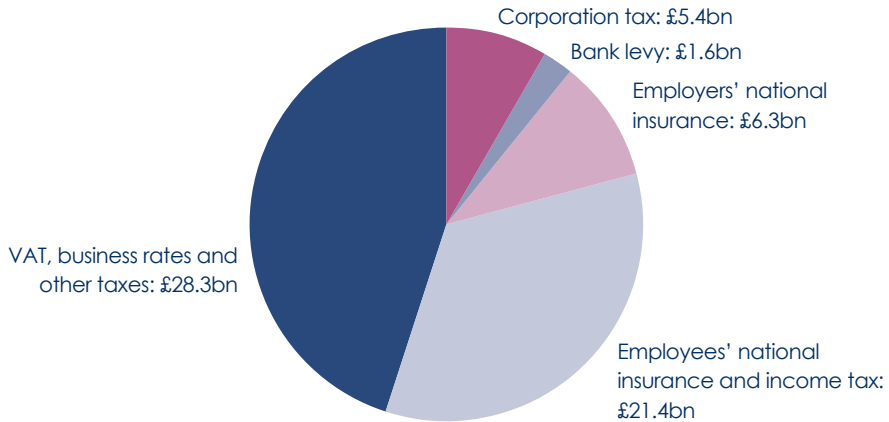
respectively. This is not because the British use more financial services: it is because the UK is a leading provider of financial services globally. Over many centuries, the UK has acquired significant competitive advantage in providing financial services around the world because of the skills and experience of the people who work in the industry.

As a result, the UK is the world's largest exporter of financial services, generating a trade surplus of £47.2bn in 2011. These exports – by British financial organisations and those from overseas which have chosen to operate in the UK – help offset trade deficits in other sectors such as manufacturing and tourism.

Because of their success, UK financial



## Tax contribution of UK financial services in 2011-12



Source: City of London, PwC

services make the largest contribution to tax revenues of any sector. In 2011-12, the total came to £63bn, more than enough to pay for government spending on public order and safety, industry, agriculture and employment.

The industry pays £1 in every £8.62 collected by the exchequer, including 13% of the corporation tax collected in the UK last year and 15% of the income tax.

### Perspective

#### Public spending

To put the £63bn tax contributed to the nation's coffers by the financial and associated professional services industry into perspective, the government spending plans for 2013-14 included the following sums:

- **Industry, agriculture and employment – £16bn**
- **Transport – £21bn**
- **Public order and safety – £31bn**
- **Defence – £40bn**
- **Education – £97bn**
- **Health – £137bn**

## Breadth and depth in financial services

Banking is the largest employer in financial and associated professional services, but hundreds of thousands also work in insurance, accountancy, legal services and management consultancy, and tens of thousands in securities markets, fund management and other financial services.

These broad totals do not, however, reflect the diversity of the services offered by these different sectors:

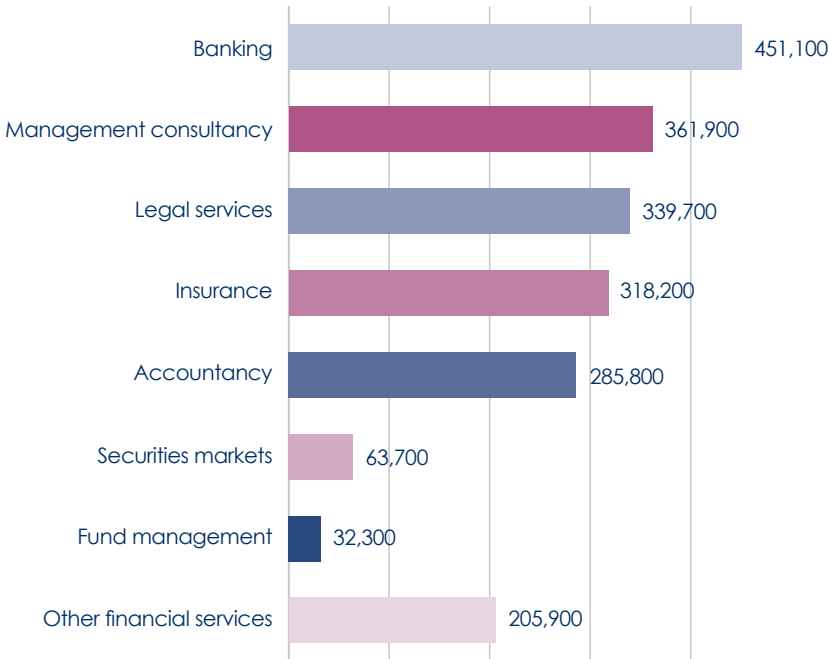
- The UK has become the leading European centre for hedge funds, providing them with all the banking and other support services they require for their complex transactions
- London is the largest global market for foreign exchange trading, and a centre for trade in commodity derivatives of all kinds
- The British Isles offer a world-beating range of services for private wealth management, serving many of the 10m-plus people worldwide who are classified as 'high net worth individuals'

- Sovereign wealth funds are also attracted to London as a centre for managing the assets they have accrued from their wealth in commodities such as oil reserves and metal deposits.

Because of the skills of the people working in the sector and the talent attracted from abroad, the UK is also at the forefront of some of the most exciting developments in financial services such as Islamic finance and carbon trading.

And the UK is taking a leading role internationally in the emerging market for social investments, which generate both social and financial returns. Amid growing interest from abroad, social investment rose by almost 25% in 2011-12, dispersing over £200m to a wide range of UK social sector organisations.

## Numbers employed in the main UK financial and associated professional services in 2011



Source: *TheCityUK*

### Case Study

#### Islamic finance

Islam forbids its 1.6bn followers – nearly a quarter of the global population – from several financial practices such as the payment of interest, conventional insurance and transactions involving

excessive risk. The UK has become the leading western centre for Islamic finance, developing Shariah-compliant financial services such as Islamic mortgages and sukuk (Islamic bonds).

Over \$34bn has been raised through sukuk listings on the London Stock Exchange and with reported assets of \$19bn, the UK is now Europe's premier centre for Islamic finance.

## Unrivalled professional services

The UK is a leading provider of many professional and support services associated with the financial services industry:

- **Legal services** generated £20.9bn in 2011, 1.6% of GDP, and net exports of £3.3bn. The UK is one of two leading centres for international legal services, including corporate finance, corporate and commercial law and tax. Four of the ten largest global law firms are from the UK
- **Accountancy** contributed 1% to GDP in 2011, with net exports worth £660m. London is a leading international centre for accounting and related services, including audit, tax advice, corporate finance and business recovery services
- **Management consultancy's** share of GDP was around 2% in 2011, with net exports of £4.4bn
- **Dispute resolution.** The UK is a leading centre for international dispute resolution, resolving over 4,300 international disputes in 2011—in addition to more than 16,930 disputes between parties predominantly in the UK
- **Education and training** by professional institutions, universities, business schools and specialist training firms. UK professional bodies, which include accounting, actuarial and insurance institutes, have 962,000 members, of whom 186,000 are overseas.

### Case Study

#### First port of call for maritime services

Britannia may no longer rule the waves, but centuries of history have made the UK the financial and business services centre for the world's shipping industry. A comprehensive range of specialist maritime services

— including ship-broking, finance, insurance, ship classification, publishing and research – generate overseas earnings estimated at more than £2bn. The Baltic Exchange in the City of London is the

world's only independent source of maritime market information, whose international community of over 600 members encompasses the majority of world shipping interests.

## The largest law firms in the world

2011/12	Headquarters	Gross revenue	Number of lawyers
Baker & McKenzie	International	\$2,265m	3,805
DLA Piper	International	\$2,247m	4,146
Skadden, Arps, Slate, Meagher & Flom	New York	\$2,165m	1,832
Latham & Watkins	National (US)	\$2,152m	2,043
Clifford Chance	London	\$2,048m	3,008
Linklaters	London	\$1,931m	2,579
Allen & Overy	London	\$1,893m	2,654
Freshfields Bruckhaus Deringer	London	\$1,822m	2,279
Kirkland & Ellis	Chicago	\$1,750m	1,468
Hogan Lovells	International	\$1,665m	2,499

Source: *TheCityUK, Legal Business*

Other contributions are made by a wide range of professional services firms, such as financial information and rating agencies, advertising and market research companies, recruitment agencies, financial publishers and software developers.

## London – the world's leading financial centre

London is ranked first in the Z/Yen Group's March 2013 Global Financial Centres Index – as it has been since the Index was launched in 2007. It is just ahead of New York, with Hong Kong and Singapore in third and fourth place.

London is noted for the breadth and depth of the services it offers, rated top in asset management, wealth management and private banking, and professional services. Its key areas of competitiveness are the people working in the industry, the business and regulatory environment, and the IT and transport infrastructure.

The City of London is home to many of the world's leading markets:

- **The London Stock Exchange** – fourth largest by domestic equity market capitalisation, and the most liquid in Europe
- **London International Financial Futures and Options Exchange (LIFFE)**, now part of the NYSE Euronext group
- **Lloyd's of London** – the world's foremost insurance market which provides specialist insurance services to businesses in more than 200 countries and territories

### Case Study

#### Streets paved with gold

London has the largest market in the world for gold and silver trading, and the one with the longest history. Over-the-counter gold and silver transactions around the world are conducted

through the 'Loco London' market in which the two metals are traded for delivery in London. The London bullion market is a wholesale market operated by banks, refiners, shippers

and brokers trading with each other and their clients under the auspices of the London Bullion Market Association.

- **London Metal Exchange** – the premier non-ferrous metals market globally
- **ICE Futures Europe** – the leading fully electronic energy futures exchange and European Union emissions trading scheme futures market.

London is also a major international centre for dispute resolution, with the London Maritime Arbitrators Association, the London Court of International Arbitration and the International Chamber of Commerce (ICC) International Court of Arbitration.

## The world's top international financial centres

Rank	Centre	Z/Yen rating*
1	London	807
2	New York	787
3	Hong Kong	761
4	Singapore	759
5	Zurich	723
6	Tokyo	718
7	Geneva	712
8	Boston	711
9	Seoul	710
10	Frankfurt	703

\*Ratings combine scores on the factors that contribute to a financial centre's global competitiveness and the results of a survey of almost 2,400 international financial services professionals

Source: Z/Yen Global Financial Centres Index, March 2013

## A powerhouse of talent

London has been a hub of global commerce for centuries – its location in Europe bridging the two other great time-zones of the Americas and Asia. With unrivalled depth of experience in financial and professional services, it is a magnet for talent from around the world.

The finance and insurance sectors employ more than 350,000 people in London, around a third of UK employment in these sectors. In addition, almost 306,000 work in professional services which are often associated with finance.

Many of these jobs are concentrated in two financial districts: the City of London, the Square Mile, where almost 240,400 work in financial and professional services; and Canary Wharf in East London where 73,800 people are employed in such businesses. Outside these two districts, another 351,500 work in finance and professional services in the rest of London.

The City of London's financial and professional services sectors are estimated to have contributed £35bn to national output in 2012 – £1 in every £38 for the UK. For London as a whole, these sectors contributed £89bn to national output, 6.6% of the total.

London made an estimated net contribution to the nation's coffers of around £10bn in 2011-12 – the amount by which tax revenues exceeded public expenditure in the capital. This was a sharp rise after the net contribution had dwindled almost to nothing after the financial crisis. Oxford Economics has forecast that London's net contribution could rise to £23bn by 2015-16 and to much higher levels over the following ten years.



## Employment in London in and around financial services in 2011

Sector	City of London	Canary Wharf	All London
Finance and insurance	155,000	62,700	357,900
Professional, scientific and technical activities	97,800	10,100	569,500
Administrative and support services	39,300	18,400	459,000
Hotels and restaurants	16,100	4,400	314,600
Wholesale and retail trade	14,400	3,700	570,800
Education	4,000	1,200	349,900
Transport and storage	3,200	800	209,600

Source: Office for National Statistics, Business Register and Employment Survey, September 2012

### Case Study

#### The world in a city

Most of the world's largest banks have chosen to locate key parts of their international business activities in London.

There are 251 foreign banks with branches or subsidiaries in the UK which employ around 160,000 people, 40,000 of whom have a

foreign passport. Altogether, there are 1,400 financial services firms in the UK that are majority foreign-owned, from 80 countries.

## The jewel in the crown

Financial and associated professional services make a vital contribution to the UK economy in terms of output, jobs, exports and tax revenues.

However, the financial crisis that began in the second half of 2007 caused some to raise questions about the industry's role, and whether it had become so large that it had left the UK with an unbalanced economy.

In fact, the contribution of financial and associated professional services to the UK economy over the last decade has been similar to that in the USA and other large economies which are also leading providers of financial services globally. The industry is one in which the UK enjoys a distinct competitive advantage because of the country's history and the skills of the people who work in it. It would be unthinkable to allow that global leadership to slip away at a time when demand for financial services is growing around the world.

Nor does the success of financial and professional services come at the expense of other industries, as has also been said. Britain leads the world in many sectors, including information technology, biotechnology,

pharmaceuticals, aerospace, advanced engineering and media. All of these rely on sophisticated financial services for their success.

As in every industry, mistakes have been made. The people who work in the industry, regulators and politicians strive to learn from such mistakes and work together to avoid repeating them. And while certain types of innovation have been behind some of the mistakes over the years, responsible innovation – appropriately regulated – is essential in tackling the challenges the world faces.

**As the rest of this booklet will show, financial services are central to the daily lives of people and businesses in the UK and globally. It is no exaggeration to say that without these services, our lives would be immeasurably poorer. The industry is a jewel in Britain's crown.**





## Creating jobs, powering growth

### Providing jobs all over the UK

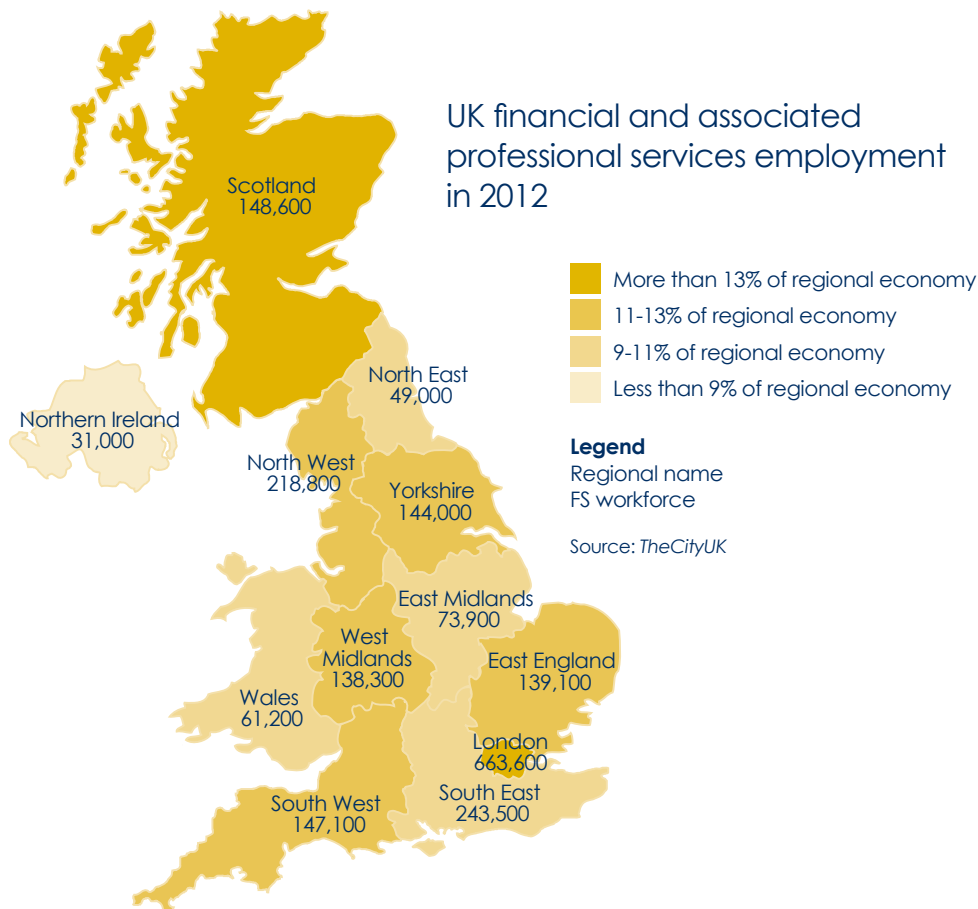
Financial services employ more than 1m people in the UK, with almost another 1m working in associated professional services. That is around 7% of all UK employment – one in 14 of all jobs.

It is often assumed that most of these jobs are concentrated in London and the South East, yet more than half are in other regions. As the map shows, financial and associated professional services firms are important employers in every part of the UK.

London's status as a global financial centre has given the UK international leadership in these services, but its success has created thriving financial centres around the UK. They include:

- Edinburgh and Glasgow in Scotland, where the key sectors are asset management, banking, asset servicing, life assurance and pensions
- Newcastle and Sunderland are hubs in the North East for professional services, shared services centres and outsourced services
- Manchester in the North West is England's northern hub in banking, insurance, law and accountancy, complemented by Liverpool's strengths in business and professional services, especially maritime insurance and wealth management
- Leeds has a large concentration of financial services businesses, and other Yorkshire centres include Sheffield for servicing functions and Hull for maritime services

## UK financial and associated professional services employment in 2012



- Birmingham in the Midlands is strong in corporate banking, mergers and acquisitions, law and insurance
- Cambridge is headquarters for many venture capital investors, while elsewhere in the East of England Norwich is home to leading insurers
- Bristol is the centre of a cluster of insurance and pensions businesses in the South West, and Exeter, Swindon and Bournemouth are also strong in financial and professional services
- In Wales, Cardiff, Swansea and Newport have around 35,000 people working in financial and associated professional services
- Belfast in Northern Ireland is attracting investment from global financial services companies for middle and back office activities.



## Supporting smaller businesses

UK banks cater for around 4m small businesses – commercial enterprises with annual bank account debit turnover below £1-2m. Each month, another 50,000 or so such small businesses open their first business account.

The current and deposit accounts of these small businesses held almost £61bn at the start of 2013. Bank borrowing by this group was hovering at just under £38bn.

Loans to small businesses take two main forms:

- **Term loans** make up the bulk of the total – loans worth £32.7bn were outstanding at the start of 2013
- **Overdraft facilities** are available to many more small businesses, but often not drawn on fully – borrowing under such facilities was worth almost £5.2bn at the beginning of 2013.

The amount banks lent to small businesses has fallen since the financial crisis and the amount deposited by small businesses has risen. A Funding for Lending Scheme launched in July 2012 by HM Treasury and the Bank of England to boost business lending was extended and improved in April 2013. Early results suggest that the scheme

is having a beneficial impact on the market, with lending volumes expected to pick up during the rest of 2013.

There are other financial services used to fund the activities of small and medium-sized enterprises (businesses with annual turnover of up to £25m). Around 10% of SMEs that offer credit to their customers get their hands on the money quickly by selling the invoices to a financial organisation at a discount.

Businesses of all sizes can acquire machinery, equipment and vehicles through hire purchase and leasing, which provide finance to around 20% of all SMEs. A finance company buys the item and allows the business to use it in return for regular payments.

Start-up and innovative small businesses can also tap into other types of finance – see Financing innovation, page 24.

## Case Study

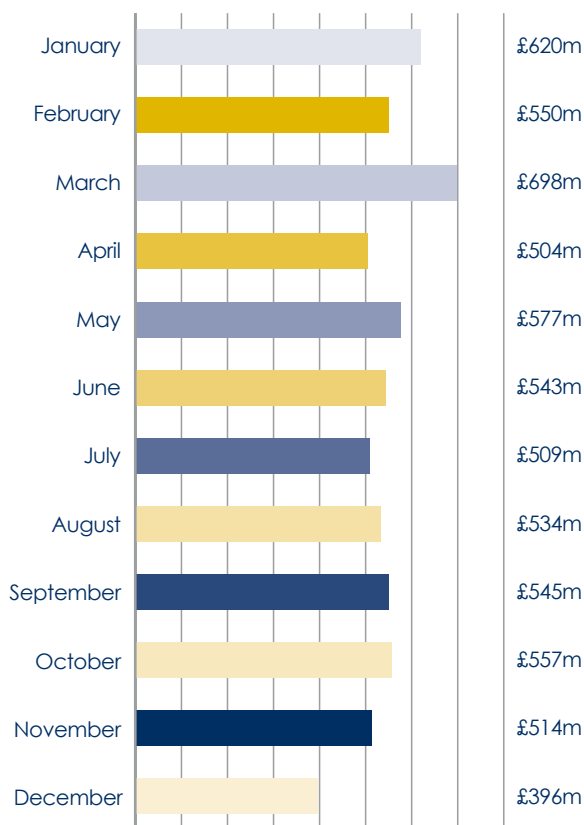
### Keeping business moving

Small and medium-sized businesses are making increasing use of leasing and hire purchase to finance the vehicles and

other equipment they need for their businesses. More than £1.1bn was provided by finance companies for commercial vehicles,

trucks and lorries in the first quarter of 2013, and £1.7bn for business equipment, IT equipment, plant and machinery.

### Value of new loans drawn by smaller businesses per month in 2012



Source: British Bankers' Association

## Funding investment

Businesses that want to invest in building a factory, developing a new product or buying another business will often turn to outside investors for finance. This can be achieved by forming a company and selling shares: in return for the investment, the company pays a share of any profits to the shareholders – individual investors or big institutions such as pension funds and life assurance companies. Investors may also make money by selling the shares for a profit if the company is successful.

Stock markets such as the London Stock Exchange (LSE) and the ICAP Securities & Derivatives Exchange (ISDX) provide markets where companies can raise capital from

investors, and investors can buy and sell shares. In total there are 928 UK companies on the LSE main market, 1,087 on LSE's AIM market for high growth companies and 115 on ISDX, which caters for smaller growth companies.

In 2012, companies raised almost £15bn on the two LSE markets, which included £3.2bn on AIM. Another £31.1m was raised on ISDX. The LSE has provided a reliable and sustainable source of finance for companies needing to raise capital over the years. It displayed its resilience during the recent financial crisis, raising more than £150bn in 2008 and 2009 as companies repaired and rebuilt their balance sheets.

### Case Study

#### Pizza to go

Domino's Pizza UK & Ireland opened its first store in the UK in 1985, and in Ireland in 1991. It was admitted to the LSE's AIM market in November 1999 when it had fewer than 200 outlets, raising £4m and achieving a market capitalisation of £25m. Having grown rapidly in the next few

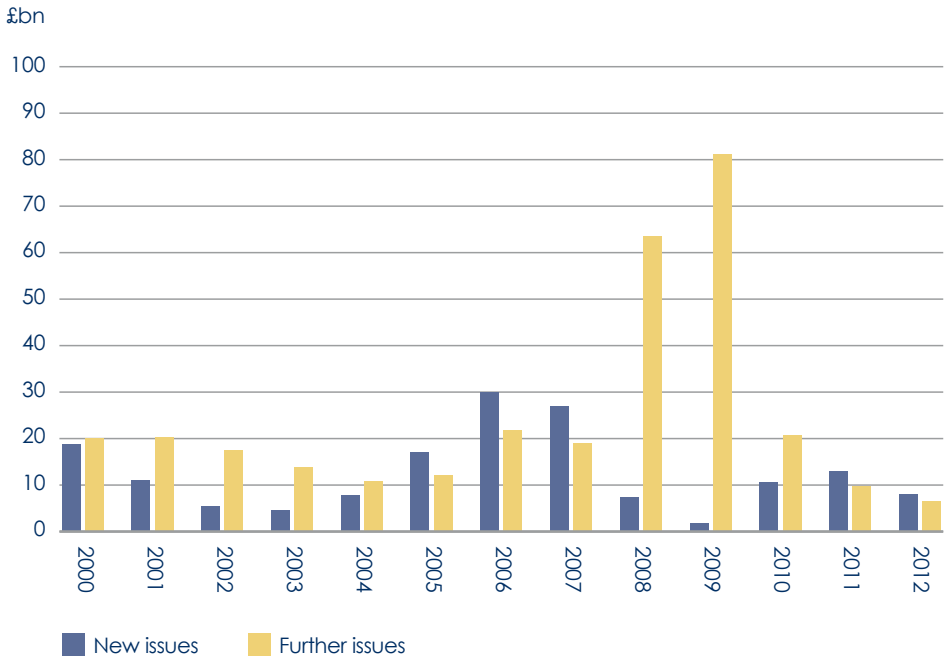
years, it moved to the LSE main market in May 2008 and is now a member of the FTSE 250 index. In 2011, the company acquired a majority stake in the exclusive master franchise to own, operate and franchise Domino's Pizza stores in Germany, and in 2012 acquired the master

franchise for Switzerland, Luxembourg and Liechtenstein.

Today, over 23,000 people work in more than 800 of the company's stores, most of which are owned by franchisees.



## Money raised on the London Stock Exchange markets 2000-2012



Source: London Stock Exchange

Companies can also raise capital by selling bonds which pay a specified return until the capital is repaid.

The LSE launched a new retail bond market in 2010 which gives individual investors direct access to the bond market and which raised £1.5bn in 2012.

## Financing innovation

Enterprise and innovation are critical to the UK's economic growth and international competitiveness. Banks will be prepared to lend to an innovative business with a good prospect of success, especially if the loan is underwritten by government loan guarantee schemes. But it can often be hard for growing companies to raise finance from banks or the stock markets if their ideas have yet to be proved profitable. Specialist investors play a vital role in ensuring the success of such ventures.

Many new enterprises start with finance from business angels. These individuals invest relatively modest amounts in start-ups – typically between £50,000 and £500,000 – and also contribute their expertise. Estimates of the amount invested by angels each year range from £800m up to £1bn.

Venture capital firms, which look for bright ideas and intelligent entrepreneurs, will also invest 'seed capital' as well as finance for start-ups which have proved their businesses work so they can move through the next stages to lift-off. Venture capital firms raise funds from investment institutions such as pension funds, sovereign wealth funds, endowments and wealthy individuals and families. Altogether, venture capital firms invested £343m in 431 companies during 2012.

Further injections of expansion capital by venture capital or private equity firms may be needed before a new business can turn to the stock markets for funds. In 2012, £1,471m of expansion capital was invested in 296 companies.

## Case Study

### Glasses in cyberspace

Founded by entrepreneur Jamie Murray Wells in 2004, Glasses Direct is today Europe's largest online retailer of prescription glasses. It initially raised £3m in 2007 from Index Ventures and Highland Capital Partners, and a further £10m in 2009 from these two

venture capital firms and Acton Capital Partners. In 2011, its parent company bought Sunglasses Shop, Europe's leading online retailer of sunglasses, which gives it overall sales of almost a quarter of a million pairs a year. And in 2012 it acquired LensOn, a leading

Nordic contact lens retailer. It also launched in the same year myoptique.com, selling designer brand eyewear. Today the company – now called The myOptique Group – ships 2,000 pairs of glasses, sunglasses or contacts a day – or one every 40 seconds.

## UK venture capital and expansion capital investment 2010-12

Financing stage	Number of companies			Amount invested		
	2012	2011	2010	2012	2011	2010
Seed	22	49	39	£5m	£23m	£10m
Start-up	76	62	65	£57m	£47m	£46m
Early stage	229	227	219	£157m	£163m	£168m
Late stage VC	104	67	74	£125m	£115m	£89m
<b>Total venture capital</b>	<b>431</b>	<b>405</b>	<b>397</b>	<b>£343m</b>	<b>£347m</b>	<b>£313m</b>
Expansion/growth capital	282	307	328	£1,465m	£1,651m	£1,651m
Bridge financing	14	10	6	£6m	£6m	£2m
<b>Total expansion capital</b>	<b>296</b>	<b>317</b>	<b>334</b>	<b>£1,471m</b>	<b>£1,657m</b>	<b>£1,653m</b>

Source: British Private Equity & Venture Capital Association (BVCA)



## Essential for our everyday lives

### Banking services for everyone

Almost everyone in the UK has access to a bank account which they can use to pay bills and carry out other transactions. UK banks operate 120m instant access accounts for their UK customers, including around 9m basic bank accounts introduced in 2003 to allow customers to receive money, pay bills and withdraw cash, mostly through post offices. Eight years after the introduction of the basic bank

account, the number of adults living in homes without a transactional bank account had fallen from 8% to 3%, one of the lowest levels in Europe.

It is easier than ever before to withdraw money from bank accounts or use it to pay bills. There are around 10,800 bank branches and more than 66,000 ATM cash machines in the UK – more per million people than in France, Germany and Italy. Meanwhile

#### Case Study

#### Account-holders reunited

A scheme to track down lost bank and savings accounts has reunited an estimated 315,000 people

with over £645m since the launch in January 2008 of [www.mylostaccount.co.uk](http://www.mylostaccount.co.uk), a website that searches

banks, building societies and NS&I records for dormant accounts.

## The UK payments market in 2012

Method of payment	Number of transactions	Value of transactions
Cash	20.8bn	£267bn
Debit card	7.7bn	£337bn
Direct debit	3.4bn	£1,075bn
Credit card	2.2bn	£140bn
Cheque	0.6bn	£601bn

Source: Payments Council

banks have introduced faster clearing of telephone, internet and standing order payments so they can be completed within a few hours, down from three or more days previously. And the time taken to switch bank account is being reduced from up to 30 days to just seven working days from September 2013.

Cash is still popular for many smaller transactions, but the amount paid by debit card overtook notes and coins for the first time in 2010. There are now around 88.5m debit cards in issue and 63m credit and charge cards.

Bank customers increasingly use their accounts online, without the need to visit a branch. Almost two in five

people use internet or telephone banking to move money after 5pm during the week, while one in five move money at the weekend. The UK is one of only three countries where customers can make and receive immediate payments 24 hours a day, 365 days a year.

The widespread use of cards has helped the growth of internet retailing, and in 2012 card payments made over the internet passed 900m for the first time. UK consumers made 930m online card purchases in that year, to a total value of £69bn.

## Savings for the future

Most people in the UK save some money, and the financial services industry offers them a wide range of savings options.

Straightforward savings accounts provide a place for spare cash, whether to pay for a holiday, buy a new car or to put money aside for a rainy day. Around half of UK households have a bank or building society savings account – some are simple deposit accounts, while others are term accounts paying a fixed rate of interest for a set period.

Financial services can also help people put away money for the longer term. Investments such as shares, bonds, unit trusts and life assurance policies are just some of the options for longer-term savings. Nearly one in five households have invested in shares or unit trusts.

The most popular way to save for retirement is through a pension scheme, with some 8.3m people in active membership of occupational pension schemes at work. When other employer-sponsored schemes are taken into account, just under half of all UK employees are covered. And over the last three decades, increasing

numbers have taken out personal pensions, bringing the total number saving through pension schemes to 13.6m.

One important consequence of the availability of such savings products is that the income of pensioners has risen faster than earnings over the last decade. The average pensioner household today has nearly as much income from pensions and savings as from state benefits which now account for less than half the total. This share is likely to rise with the government's policy of promoting more saving for pensions, starting at an earlier age.

## Case Study

## Who wants to be a millionaire?

Around half of UK adults enjoy tax-free returns on investments held in Individual Savings Accounts (ISAs), owning cash, stocks and shares worth £391bn in April 2012. But some have

become 'ISA millionaires' by investing the maximum amount each year – £11,520 for 2013-14 – in ISAs and in the Personal Equity Plans (PEPs) which preceded them. Stockbrokers say they

have clients who have built up portfolios worth more than £1m by choosing their investments well and reinvesting the income from them.

## Pensioners' weekly income in 2010-11

Source of income	All pensioner households	Pensioner couples	Single pensioners
Benefit income	£191	£210	£174
Occupational pension	£115	£164	£71
Personal pension	£16	£25	£7
Investment income	£33	£50	£17
Earnings	£87	£157	£23
Other income	£4	£5	£3
<b>Total gross income</b>	<b>£446</b>	<b>£610</b>	<b>£296</b>

Note that totals may not equal their components due to rounding

Source: *The Pensioners' Income Series 2010-11*, Department for Work & Pensions, 2012

## A home to live in

Financial services have helped millions of people to buy their homes for the first time, and also support private landlords and housing associations in providing rented accommodation.

Just under 65% of homes in the UK – 17.7m homes – are owned by the people that live in them. In most cases, owner-occupiers have been able to buy their homes because of the availability of mortgage loans, secured against the value of their property.

Around half of home-owners in the UK – some 8.9m households – currently have a mortgage, with the majority paying less than £140 a week. The remainder, who are mainly over 55, will often have become home-owners with the help of mortgages which they have now repaid, leaving them with a valuable asset.

Home ownership does not suit everyone, and some 9.7m homes in the UK are rented. Almost half are owned by private landlords, compared with around a quarter 30 years ago. Many of these private landlords have bought the homes they let out or financed new developments with the help of funds provided by banks and other financial services institutions.

The rest of the rented accommodation is social housing provided by local authorities and housing associations which charge their mainly lower income tenants rents at about half the levels of private landlords. Even here, the financial services sector provides around £73bn of credit facilities to the housing associations which own just over half of social housing so they can make their government grants go further.

### Case Study

#### Fixing the cost of a mortgage

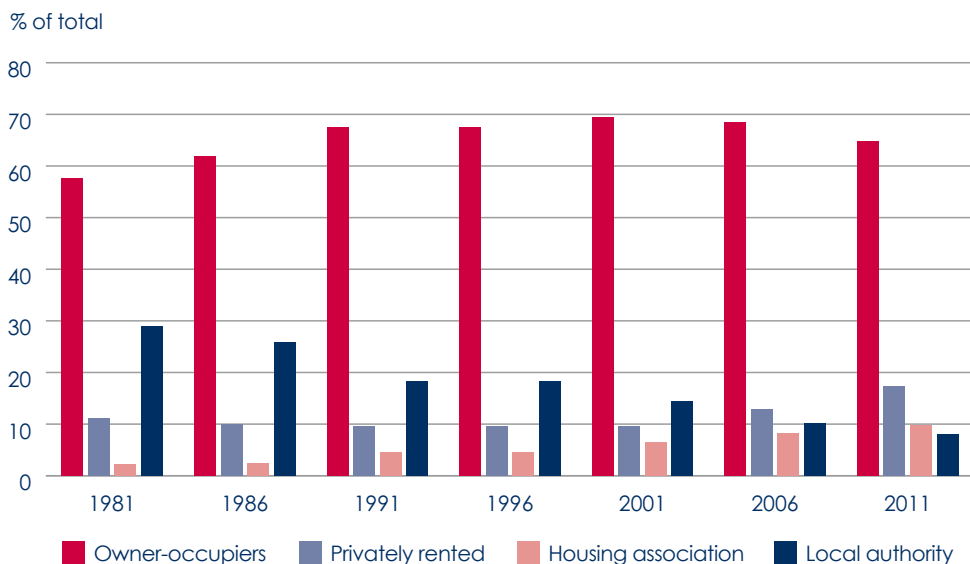
People buying their homes with a mortgage used to pay a variable rate of interest on the loan, which rose and fell with other interest rates – making it hard to budget at times

when interest rates were rising. Today most borrowers are paying a fixed rate of interest, protecting themselves from sudden increases in mortgage payments. Lenders can

raise funds in the financial markets in a variety of ways that let them guarantee fixed interest rates over short or long periods without making a loss.



## Trends in home ownership, private renting and social housing



Source: UK Housing Review 2012-13, Chartered Institute of Housing

## Protection against risk

Risk is inescapable for people, businesses and public bodies, whether it be fire, floods, crime, accidents or other costly threats. Insurance companies pool these risks by collecting relatively small premiums from those threatened by them, creating a fund to pay out to the minority of policyholders who are hit by them.

The UK insurance industry took in almost £47bn in premiums for general business such as vehicle, property and accident cover in 2012, and paid out more than £30bn in net claims. Worldwide premiums for long-term savings and life insurance business were almost £165bn in that year, while payments to policyholders totalled just over £196bn.

The scale of protection can be seen in the average amounts paid out daily: £19m in private car claims and over £9m to householders for property damage or the loss of possessions. Customers received annuity payments of £37m every day on average, with almost £33m paid out daily on pure life insurance policies.

Insurance protection is also essential for businesses and other organisations, with average daily pay-outs of £3.4m for property damage and £7m in claims for accidents at work, professional liability and injuries to the public. UK-based insurers operating through the London market and Lloyd's of London can cover very big or unusual risks, such as those faced by airlines, oil and gas exploration companies and the organisers of events such as the Olympic and Paralympic Games.

Insurers invest large amounts in company shares and other assets on behalf of savers and policy-holders – more than £1,800bn at the end of 2012.

## Case Study

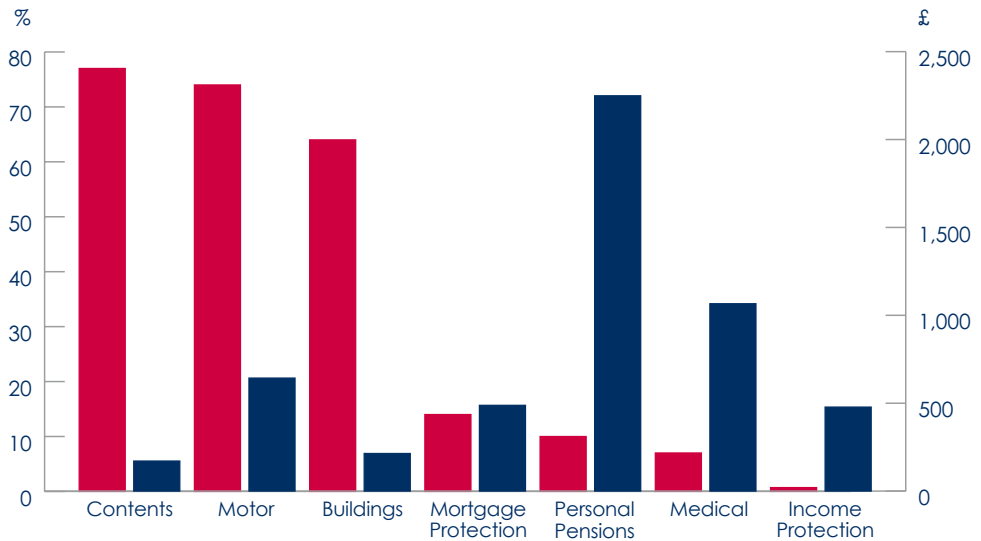
## Insurance for all eventualities

Event insurance, which protects organisers against a variety of threats, is a speciality at Lloyd's. Cover against damage to property or personal injury at firework displays, for example, starts

at around £100, while protection against washout losses caused by bad weather or industrial action can cost a little more. Organisers of golf days offering big prizes in hole-in-

one competitions can also insure against paying out – whether the prize is \$1m, a smart new car or the holiday of a lifetime.

## Take-up of insurance by households and the cost of premiums\*



■ % of households with insurance (LHS)

■ Average annual household spending on insurance - £ (RHS)

\* Excluding insurance provided by employers, such as medical cover  
Source: ONS Living Costs and Food Survey 2011



## Contributing to global prosperity

### Financial services around the world

The UK is at the heart of the global economy, helping raise funds for overseas businesses and providing financial services to people, businesses and governments around the world.

In every sector, the UK is a leading global provider:

- Banks in the UK originate more loans overseas than banks in any other country – 19% of the world total
- The UK insurance industry is the third largest in the world, and London is the largest international insurance market with gross premium income of \$320bn in 2011
- The London Stock Exchange has more foreign listed companies than any other exchange, and is a leading centre for foreign equity trading

#### Case Study

### A second home for the world's wealthiest investors

London provides a European base for some of the world's richest sovereign wealth funds (SWFs), which invest wealth earned from oil and other commodities on behalf of their nations. They are attracted by the

City's unique cluster of financial and professional services, its broad skills base, the UK's open markets and the primacy of English law in many international transactions. Their number includes the Abu Dhabi

Investment Authority, the world's second wealthiest SWF with \$627bn of assets, Temasek/General Investment Corporation of Singapore and the Kuwait Investment Authority.

- London is the foremost global centre for international bond trading, with an estimated 70% of secondary market turnover
- UK fund managers look after more than £1,900bn of assets on behalf of overseas clients
- The UK foreign exchange market is the largest in the world, with average daily turnover of \$1,919bn in October 2012 – more than New York and Tokyo combined
- The UK is Europe's largest centre for commodities trading, with around 15% of the global market
- London leads in the supply of business services to the international maritime community – ship-broking, finance, insurance and classification.

In addition, the UK is the biggest market in the world for interest-rate derivatives traded over the counter (OTC). It is the largest European market for private equity, raising €16.5bn in 2011 – 40% of the funds raised in Europe. It is also the largest hedge fund market in Europe, with more than four-fifths of European-based hedge fund assets managed in the UK.

## The UK's market share in global financial markets

Market	Share	Ranking
Non-ferrous metals trading	90%	1
International bond trading	70%	1
Ship-broking – tankers	50%	1
Derivatives (OTC interest rate)	46%	1
Foreign exchange trading	37%	1
Marine insurance premiums	19%	1
Cross-border bank lending	19%	1
Hedge fund assets	18%	2
Private equity investments	12%	2
Securitisation issuance	6%	2

Source: TheCityUK

## Supporting sustainable development

Around 4bn of the world's population live below the poverty line, and lifting them out of poverty requires sustainable economic growth.

A substantial body of research has shown that growth rates are faster in countries with well-developed banking systems and markets which can help fund the growth of businesses.

The UK banking sector is the largest lender to emerging economies, with \$764bn outstanding at the end of 2011 – 18% of total lending to emerging markets. UK banks account for over 30% of lending to China, India and Malaysia; 16% of lending to Brazil; and 70% of lending to South Africa.

The UK is also a leading investor in emerging market businesses. And it finances infrastructure services in water, telecoms, transport and power through Public-Private Partnerships, a funding model pioneered by the UK which is particularly suitable for countries where governments have little cash to invest.

London-based banks and investors have funded microfinance institutions which provide relatively small loans to help very low income people start up or expand a business. Other

financial services for the world's poorest people have been created by UK-based businesses, such as MicroEnsure's low-cost insurance policies to protect African farmers against crop failure caused by drought or excess rain.

The International Finance Facility for Immunisation (IFFIm), a UK initiative, has raised more than \$4.5bn since 2006 in the global capital markets to vaccinate children against potentially fatal diseases, to be repaid by aid payments pledged by 10 countries over up to 20 years. The first \$1bn was raised by a bond issued in London, and the scheme is projected to protect more than 500m children by 2015. It is estimated that this will prevent the deaths of 10m children and adults from diseases such as diphtheria, whooping cough, yellow fever, polio and hepatitis B.

## Case Study

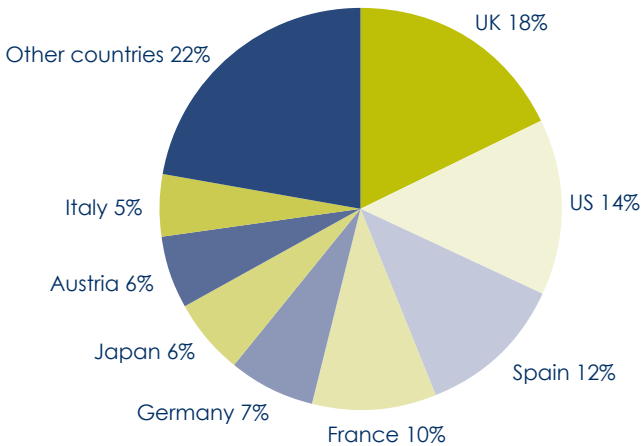
## Protecting new-born babies

A newborn child dies every nine minutes worldwide due to the lack of a clean delivery and the resulting tetanus infection. Yet two doses of tetanus toxoid vaccine will protect mother

and child against maternal and neonatal tetanus which are estimated to have caused 59,000 deaths worldwide in 2008. Tens of millions of women have been vaccinated since 2007

in a campaign funded by \$61.4m raised through the IFFIm, eliminating the disease in 20 countries as well as large parts of India and Indonesia.

## Countries lending to emerging markets, share of total at the end of 2011



Source: TheCityUK, Bank for International Settlements

## Tackling climate change

Climate change is widely seen as a threat to economies and societies round the world. The UK has taken the lead in two aspects central to the international drive to reduce greenhouse gas emissions: carbon trading and clean technologies.

Carbon trading systems cap the total amount of greenhouse gas emissions and issue permits to emitters which can be bought and sold – providing incentives for the biggest emitters to reduce their emissions. London is the world's carbon trading capital, home to the European Climate Exchange which handles the bulk of trading in the permits issued under the European Union Emissions Trading Scheme.

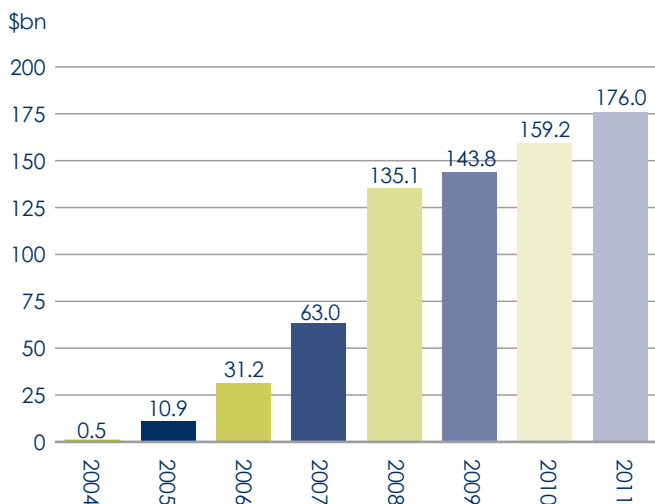
Companies which fund the reduction of greenhouse gases in countries outside the EU – which are often big emitters – earn carbon credits, which can be used to offset their own emissions or sold to others. A total

of \$145bn has been invested in China, \$39bn in India and \$36bn elsewhere in a range of projects, including hydro-electric power (29%), wind (27%), biomass (10%) and methane avoidance (10%). The UK dominates trading in certified emissions reduction permits from such projects, and is also the lead investor in them, with investments in 2,200 projects up to June 2012 – 29% of the total.

Finally, the UK is a leader in investing in cleantech – the development of renewable and related technologies. There are 35 cleantech companies listed on the London Stock Exchange main market, with a market capitalisation of £60bn, and another 82 on AIM worth £2.7bn. These companies have raised £10bn in equity to promote energy efficiency, renewable and alternative energy, water infrastructure and pollution control.



## Value of emissions traded on global carbon markets



Source: TheCityUK

### Case Study

#### Cleantech lighting in Africa

For 600m people in sub-Saharan Africa, flickering candlelight or polluting kerosene lamps are the main source of lighting. Nuru Energy supplies entrepreneurs in African villages with LED lights which are sold to villagers for less

than \$7 each and can be recharged cheaply using a pedal generator operated by the entrepreneur. The buyers recoup the cost of a light in just 22 days through savings on kerosene which typically costs 10-40% of a villager's income. The

scheme is being scaled up with finance from Bank of America Merrill Lynch in London in return for carbon credits – the reduction in kerosene burning is expected to cut carbon emissions by 3.5m tonnes over a decade.

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