

Winning the Global Race

The competitiveness of the UK as a centre for international banking

bba

The voice of banking



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The competitiveness of the UK as a centre for international banking

November 2015



The voice of banking

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The BBA is the leading trade association for the UK banking sector with 200 member banks headquartered in over 50 countries with operations in 180 jurisdictions worldwide. Eighty per cent of global systemically important banks are members of the BBA. As the representative of the world's largest international banking cluster, the BBA is the voice of UK banking.

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For more information on becoming a member and working with the BBA, visit: www.bba.org.uk/membership or contact:

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Executive summary

- The banking sector plays a critical role in the UK economy, providing essential financial services to UK and international customers and acting as a gateway to financial markets. It contributes almost 5% of the UK's Gross Value Added (GVA), employs over 405,000 people throughout the UK¹, and contributed £31BN to UK tax receipts in 2014.²
- The UK banking sector is the third largest globally with £6TN of assets as of 2014. This is largely due to the UK's position as the preeminent international banking centre. Approximately £4.5TN of these assets are from international banking, which includes foreign banks based in the UK and the wholesale arms of UK headquartered banks, and is the focus of this report.³ These international banks contribute over 50% of the sector's GVA, more than 30% of its employees, and over 50% of its taxes.⁴
- However, the abiding advantages of the UK – its location, language and legal system – are being eroded by several trends. New technology is making wholesale banking (which is the majority of international banking) even more “portable”. New banking centres, such as Singapore and Hong Kong, are gaining ground on the back of rapid growth in emerging economies.
- The post-crisis reform agenda – rightly laid out by the G20 to strengthen and restore faith in the sector – has reduced returns in wholesale banking globally. Additional pressure arising from UK-specific policy and regulatory decisions has begun to reduce the attractiveness of the UK as a location for international banking and hinder UK wholesale banks' ability to compete internationally.

¹ Figure excludes Northern Ireland as 5-figure SIC2007 data from Office of National Statistics (ONS) is unavailable; 2013 estimate for NI provided in Chapter 1

² BBA and PwC, 'Total Tax Contribution Study of the UK Banking Sector', 2015

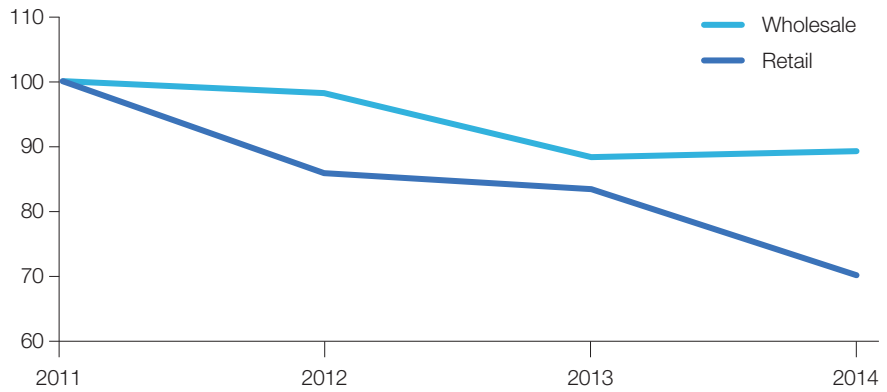
³ See Chapter 1 for additional details on definition of 'International Banking'

⁴ Perimeter differs due to data availability: GVA and tax figures shown for foreign-headquartered banks; employee figure shown for wholesale banks

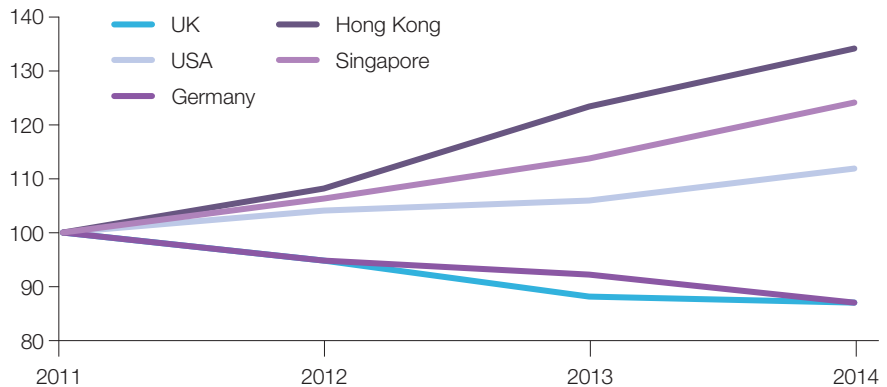
- Recent measures of the sector's health provide evidence for this erosion in the UK's competitiveness. Since 2011 banking assets in the UK banking sector have shrunk by 12% (5% in wholesale) while growing in rival centres: by 12% in the US, 34% in Hong Kong and 24% in Singapore. Over the same period, employment in the UK banking sector has fallen by 8% (35,000). In activities linked to capital formation like cross-border lending and initial public offerings (IPOs) of equity, the market share of the UK is static or falling. Additionally, in a recent survey of BBA members, two thirds of respondents stated they had moved activity and jobs away from the UK since 2010; this was corroborated by the contributors to this report.

Figure 1: Evidence of erosion in international competitiveness of UK

UK banking sector assets by segment
Index, 2011=100

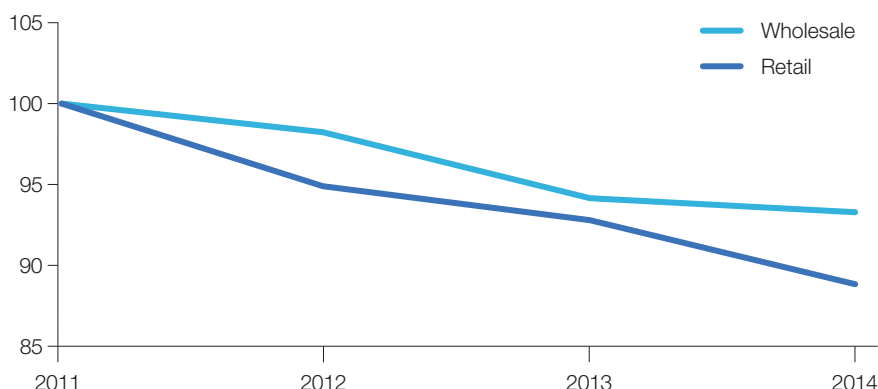


UK banking assets versus competitors
Index, 2011=100



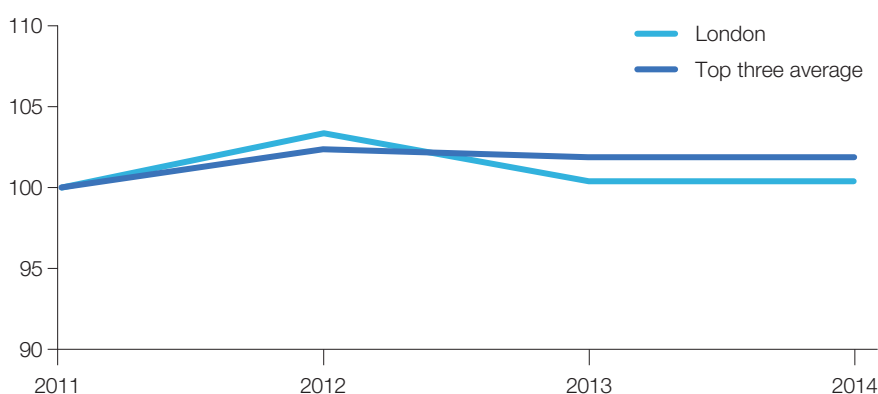
UK banking sector employment by segment

Index, 2011=100



UK GFCI score versus top three competitor average

Index, 2011=100



Source: Bankscope, bank public reporting, Bank of England, Hong Kong Monetary Authority, European Central Bank, Federal Deposit Insurance Corporation, Monetary Authority of Singapore, Office for National Statistics, Z Yen, Oliver Wyman proprietary data and analysis

Notes: Some differences in asset perimeters exist between countries due to varying definitions between reporting bodies; GFCI top three competitor average calculated as top ranked centres excluding UK

- In this context, many of our contributors welcomed the change in tone from the new government. In particular we note the “new settlement” and raised ambition to “ensure we have the best, and most competitive financial services in the world” outlined in the Chancellor’s Mansion House speech on 10 June 2015⁵, which sent a positive message of support to the industry.
- The BBA and its members support the view that good regulation is a competitive advantage versus other centres. We also recognise a change of tone in conduct regulation, important developments in the Senior Managers Regime, the proposed reduction in the bank levy, greater certainty over tax for international banks, and support for important sectors such as FinTech.

⁵ Speech by Chancellor of the Exchequer, RT Hon George Osborne MP, “Mansion House 2015”, 10 June 2015

- However, threats to the UK's position as a leading international banking centre remain. For example, unilateral UK regulation, such as ring-fencing, entails significant cost to some UK-based banks and extraterritorial regulation, such as EMIR, makes it harder for UK-headquartered banks to compete abroad. Also, uncertainty arising from the rapidly changing tax regime and EU referendum are inhibiting business planning and discouraging investment. The expected continuing growth of alternative centres such as Hong Kong and Singapore puts the competitiveness of the UK into sharp relief. Consequently, in a recent survey of BBA members, a majority of respondents from international banks believed there was a rationale to further reduce their business activities in the UK.
- The government and industry must work together to articulate a clear vision for the future of the UK banking sector and then ensure that policy supports this vision. Our recommendations fall into five broad themes, summarised in the table below.

Theme	Recommendations
A coherent national vision for the role of international banking as part of the UK economy, and joined up government around this	<ul style="list-style-type: none"> · Set a government "vision" for international banking as part of the future UK economy · HM Treasury (HMT) to set up a formal administrative process to facilitate coherent government and regulatory action in support of this vision · Industry associations to review and recommend UK policy strategy actions that could support the broader financial sector in the UK
A sound global regulatory framework backed by consistent principles, rules and standards	<ul style="list-style-type: none"> · Bank of England (BoE) to continue to take an active role in setting the global regulatory framework · EU to align regulation with these global standards · European Commission to ensure the extraterritorial nature of regulation does not create an uneven playing field for EU firms aboard · UK industry and trade associations to build stronger relationships with peers across Europe and globally to influence this debate · Industry and regulators to strengthen the role of market standards and develop a coherent framework in which they are applied

Theme	Recommendations
<p>Predictable and proportionate application of an effective regulatory framework, aligned with UK policy objectives</p>	<ul style="list-style-type: none"> · Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) to align UK regulation with these global standards · Government, FCA and industry to take action to increase operational separation and deepen wholesale market conduct expertise in the FCA · Regulators to conduct “horizontal review” of regulation · Government to consider separation of responsibility for redress from current FCA mandate to a new independent body · Industry and regulators to work to ease the multi-regulator burden; consolidation of requests; data repositories or regulatory interface utilities · Authorities to consider adapting the regulatory approach for smaller entities · PRA and FCA to support bank adaptation to ring-fencing; keep regulation under review · HMT to provide certainty on the tax regime and ensure it is internationally comparable
<p>Promotion of the UK as a centre for highly skilled banking employees and a driver of broad employment across the nation</p>	<ul style="list-style-type: none"> · Industry to implement clear responsibilities and accountability framework and embed through culture · PRA/FCA to address current regulatory obstacles to senior talent attraction and retention · Industry, Home Office and HMT to take action to develop the UK as a centre for the development of highly skilled banking employees · Devolved nations, city regions and local authorities to promote non-London centres for banking
<p>Support for growth and innovation</p>	<ul style="list-style-type: none"> · Industry and government to continue to support the growth of FinTech as an increasingly critical part of the banking ecosystem · Industry and government to maximise opportunities resulting from Capital Markets Union (CMU) · Government, regulators and industry to work to ensure UK has requisite product capabilities and policy environment to support growth areas

Acknowledgements

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Introduction

In late 2014, the BBA began discussing the UK's competitiveness as an international banking centre with its members and with stakeholders within government and regulatory bodies. It became clear that there was a widespread interest in developing a strategy to safeguard the position of the UK as a leading international banking centre, hosting foreign banks and UK-headquartered wholesale banks.

The consultancy Oliver Wyman agreed to support this initiative and has been working with the BBA throughout 2015. This document reports the findings of this work. It draws on a volume of existing BBA work, extensive new research on the state of the banking sector in the UK and a survey of BBA members carried out in summer 2015. Oliver Wyman and the BBA also interviewed a large number of regulatory experts, senior bankers and other stakeholders to gain their perspectives on the issues and actions that could be taken.

The scope of this work is aligned with the mandate and expertise of the BBA. We address only the banking industry and not wider financial services. Our recommendations focus on policy-driven factors of competitiveness and not broader structural and business factors such as transportation or legal framework. Additionally, as this work concerns the competitiveness of the UK relative to other jurisdictions, we do not address common global trends, policy or standards. For example, we consider the domestic and EU application of supranational banking standards not the standards themselves. Similarly, the report focuses on wholesale banking, which is more internationally portable. Retail banking is not examined in depth.

The remainder of this report outlines our conclusions and is structured around four sections. Our detailed recommendations are given in Section 4. Before giving them, however, the context needs to be better understood. In Section 1 we explain the value to the UK of its banking sector, and of international banking within it. Section 2 examines the evolution of international banking centres and expected drivers of future success. The key threats to the UK's competitiveness are identified in section 3.

Chapter 1

How important is the UK banking sector and international banking within it?

1.1. Size of the UK banking sector and international banking within it

The UK banking sector as a whole is the third largest globally with £6TN of assets as of 2014. This reflects the UK's position as a leading international banking centre: 25% of assets are from the retail banking activities of the major high street banks, 35% of assets are from the wholesale arms of UK banks and the remaining 40% are from banks with foreign headquarters. Around 55% of all UK banking assets are liabilities of foreign counterparties.

We define "international banking", which is the focus of this report, as foreign-owned banks operating in the UK and the wholesale arms of UK-owned banks. As illustrated below, these activities are typically more internationally portable and they serve a more international customer base.

Figure 2: International vs. domestic banking activities

International nature of banking activities

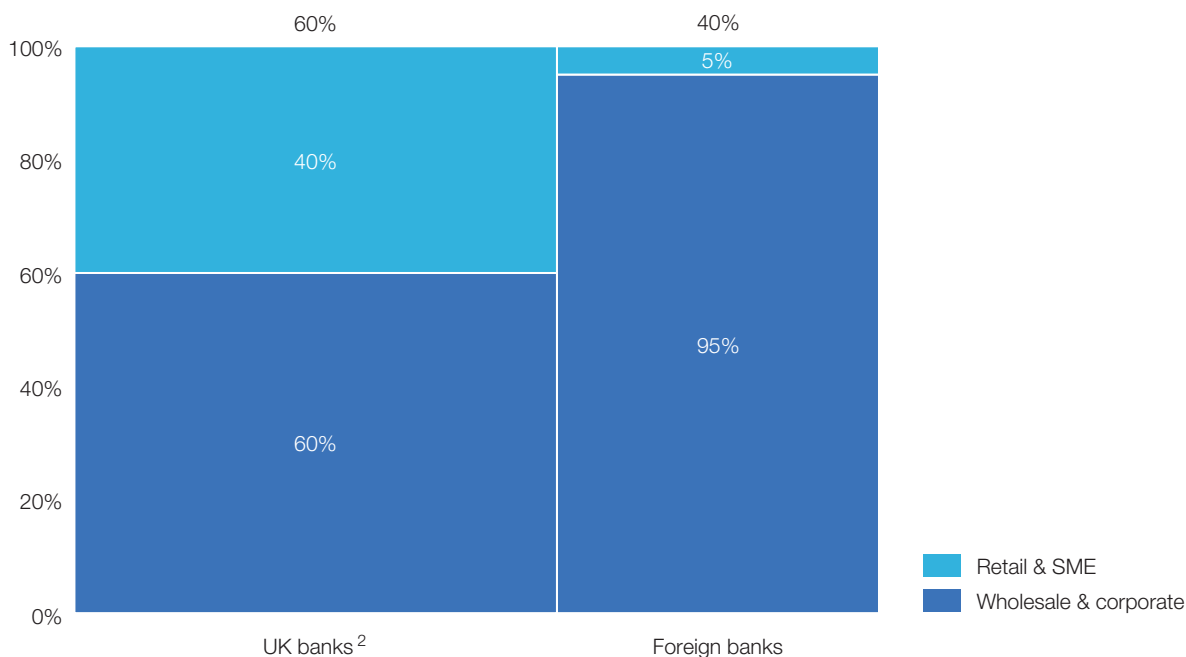
		Focus of this report			
		Local customer base		International customer base	
		Retail & business banking	Private Wealth & Asset Management	Corporate banking	Capital markets
Example activities		<ul style="list-style-type: none"> Deposits / lending SME and mid-market commercial banking 	<ul style="list-style-type: none"> Private banking Private wealth management 	<ul style="list-style-type: none"> Transaction services Credit / lending 	<ul style="list-style-type: none"> Capital markets Capital financing Securities services
Typical clients		<ul style="list-style-type: none"> Individuals SMEs 	<ul style="list-style-type: none"> Wealthy individuals (both domestic and international) 	<ul style="list-style-type: none"> Large corporates Multinationals 	<ul style="list-style-type: none"> Large corporates Multinationals Investors
International portability of activities	Sales	<ul style="list-style-type: none"> Front office needs to be located near customer base 	<ul style="list-style-type: none"> Front office needs to be located near customer base 	<ul style="list-style-type: none"> Proximity to clients important Portable loan underwriting 	<ul style="list-style-type: none"> Portable brokers Client proximity advantageous
	Execution / transactions	<ul style="list-style-type: none"> Payments and account admin internationally portable 	<ul style="list-style-type: none"> Portable customer transactions and asset management 	<ul style="list-style-type: none"> Outsourcing of research work Advisory teams portable 	<ul style="list-style-type: none"> Access to liquidity key Research / servicing functions portable
	Risk and balance sheet management	<ul style="list-style-type: none"> Typically locally based due to local nature of business 	<ul style="list-style-type: none"> Can be remotely managed Regulatory considerations 	<ul style="list-style-type: none"> Can be remotely managed Regulatory considerations 	<ul style="list-style-type: none"> Led by innovation / human capital Regulatory considerations

Source: Oliver Wyman analysis

○ Not internationally portable ● Internationally portable

Figure 3: UK banking sector assets by parent location and segment

2014 year-end, % of total assets



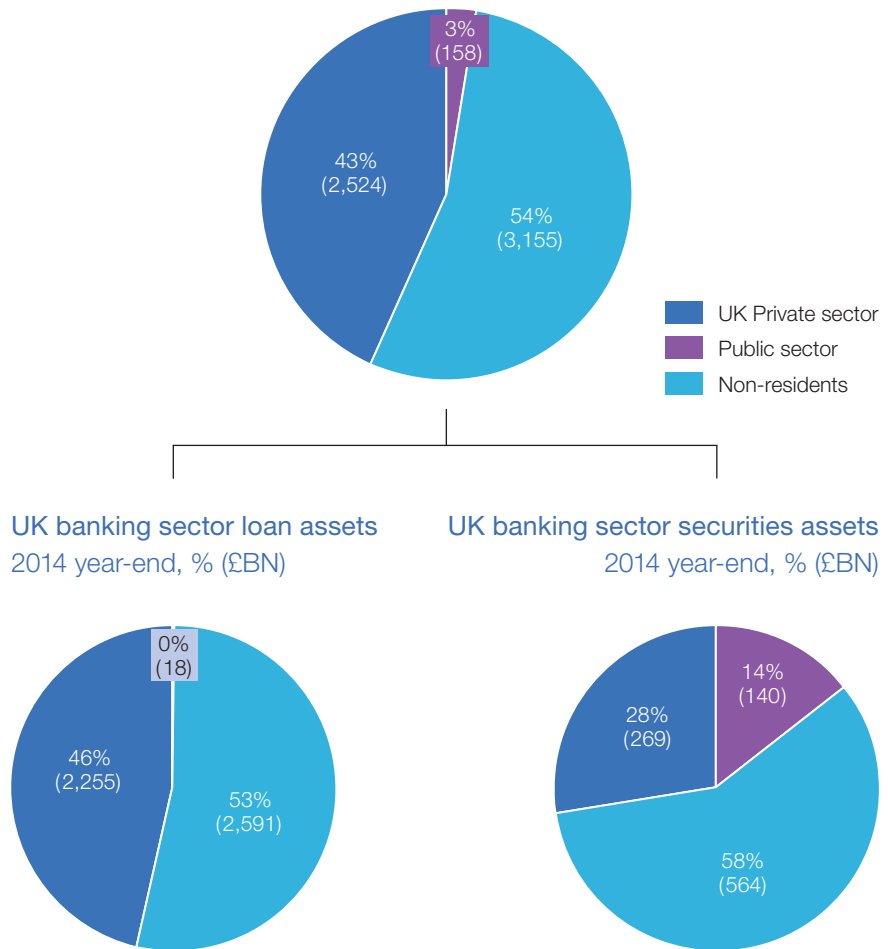
Source: Bankscope, bank public reporting, Oliver Wyman proprietary data and analysis,

1. Retail/wholesale split estimated based on group legal entity structures, asset types, and publicly reported segmentation

2. Includes Santander as a UK 'high street' bank

Figure 4: UK banking sector assets by counterparty

UK banking sector assets¹ by counterparty²
2014 year-end, % (£BN)



Source: Bank of England, Oliver Wyman analysis

1. Loans and securities, excluding financial derivatives

2. Includes interbank lending

Consequently, the success of the UK banking sector as a whole is driven by more than just the domestic operations of UK-owned banks.

1.2. Importance of banking to the UK

1.2.1. Benefits of banking to the UK

Banking is one of the most important sectors of the UK economy.

Banks contribute to the economy in four main ways:

- Providing valuable banking services to businesses and households
- Contributing to economic output
- Acting as good “corporate citizens”
- Contributing to the broader knowledge and services sector

We discuss each below.

1. Providing valuable banking services to businesses and households

Banking is the lynchpin of a flourishing economy. The World Economic Forum identifies a number of essential needs that banks fulfil for businesses and households; examples of these include:

- **Credit:** Businesses and households often need credit, either to invest in assets or to smooth consumption in the face of volatile earnings, and banks remain the leading source of credit in the UK. For example, according to the 2013 Independent Lending Review: “SMEs require multiple forms of financing [and] bank lending remains the most important component of debt financing.”⁶ UK banks had £4.9TN of outstanding loans as of Q1 2015, approximately half of which were to counterparties not resident in the UK.⁷
- **Risk management:** Banks manage credit, market and liquidity risk on behalf of creditors, borrowers and investors, using a variety of products, including derivatives. For example, as Rolls Royce states in its annual report: “the Group has a comprehensive financial risk policy that advocates the use of financial instruments to manage and hedge business operations risks that arise from movements in financial, commodities, credit or money markets.”⁸
- **Payments:** Banks provide mechanisms for the transfer of cash and securities both domestically and internationally. For example, 20 banks are connected to the Clearing House Automated Payment System (CHAPS) system in the UK, which was used to process 2.9 million payments worth £5.2TN over 20 days in August 2015.⁹
- **Deposit taking:** Banks offer current accounts, term deposits and other investment products for households and businesses to earn yields on their savings. As of 31 August 2015, UK financial institutions held more than £2TN of sterling-denominated private sector deposits.¹⁰

Domestic clients living in an international banking centre such as the UK get access to superior banking services. They gain access to a wider pool of borrowers and lenders, increasing the efficiency of credit transformation. Similarly, trading venues benefit from the extra liquidity provided by foreign investors. Strong UK banks help to maintain this ecosystem in the UK, and support liquidity in sterling markets. Furthermore, the presence of Global Systemically Important Banks (GSIBs) in the UK gives the UK government a stronger voice in international financial policy-making forums such as the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB), ensuring that global rules work in harmony with the UK economy.

2. Contributing to economic output

The banking sector also contributes directly to the UK economy through its output and employment. The banking sector made up almost 5% of UK Gross Value Added in 2014. Around 40% of this is generated by foreign banks.

⁶ Sir Andrew Large and Oliver Wyman, “RBS Independent Lending Review”, 25 November 2013

⁷ Bank of England, Bankstats, 2015

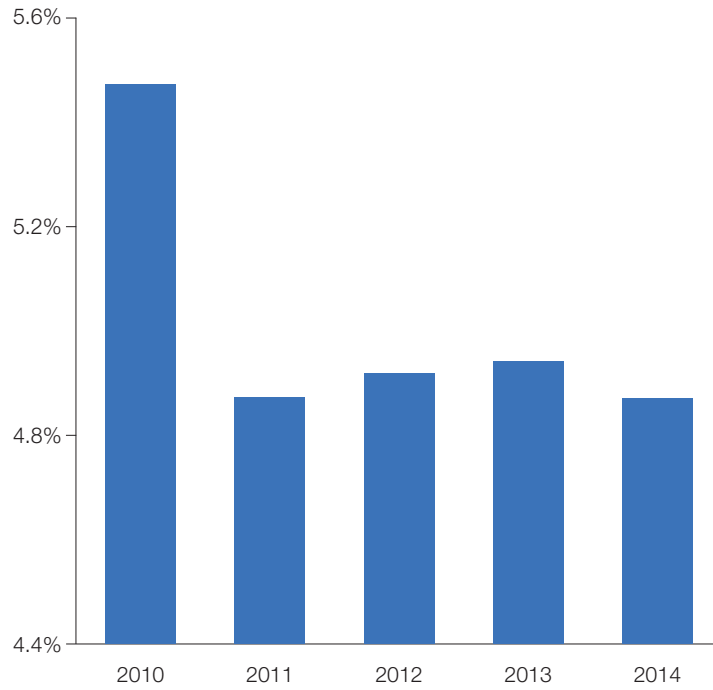
⁸ Rolls Royce, Annual Report, 2014

⁹ CHAPS, CHAPS Statistics, 2015

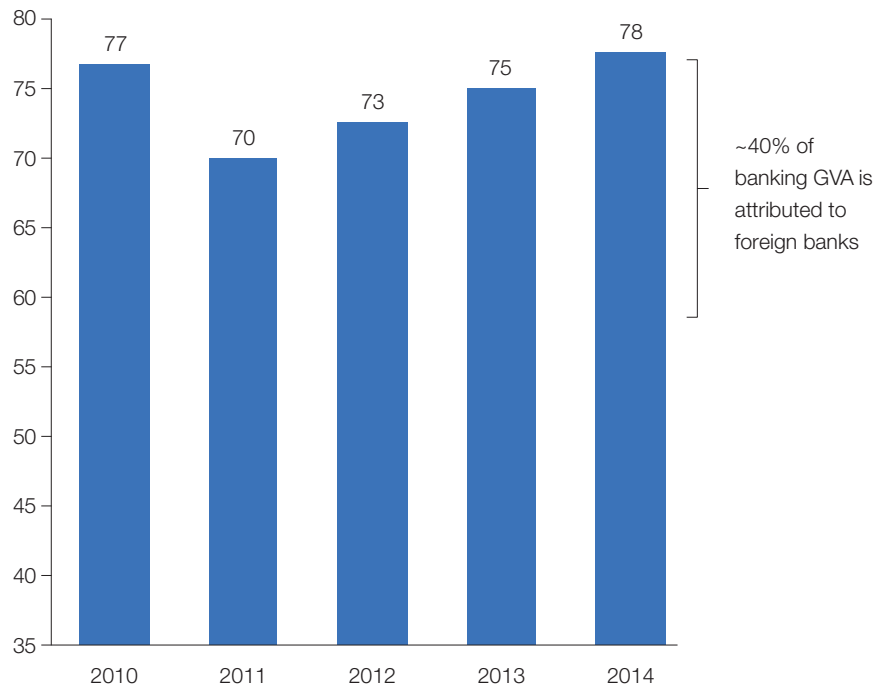
¹⁰ Bank of England, Bankstats, 2015

Figure 5: UK banking sector GVA

Banking sector Gross Value Added
% of UK economy



Banking sector Gross Value Added
£BN

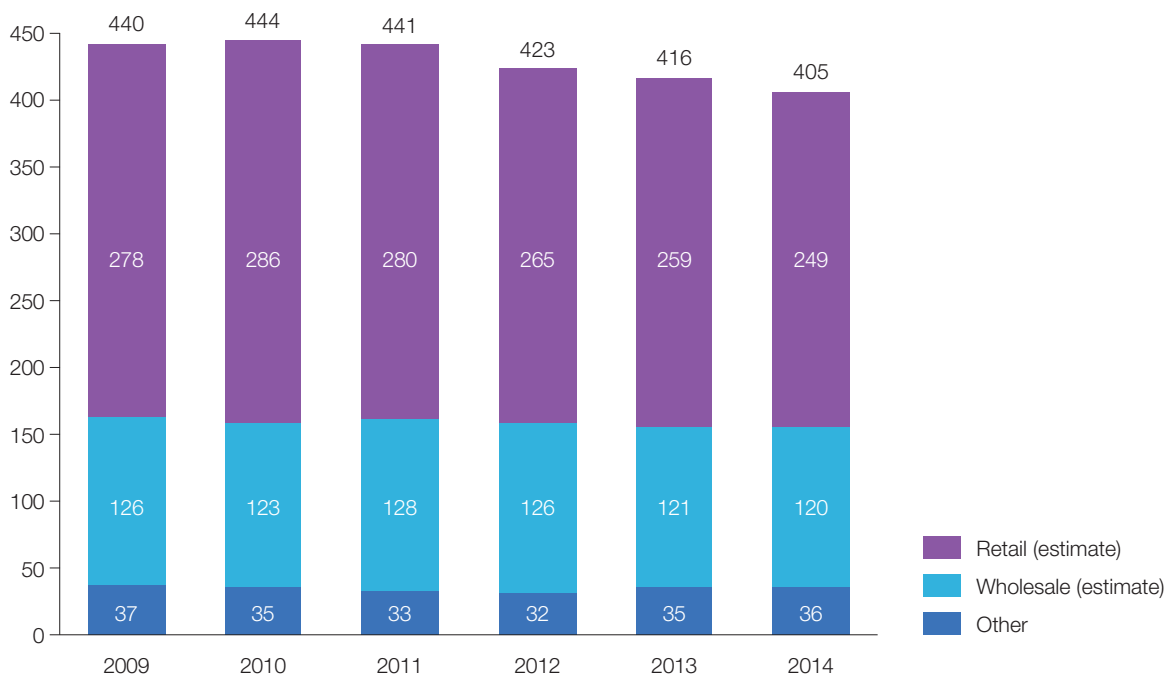


Sources: Office for National Statistics (ONS), Oliver Wyman analysis

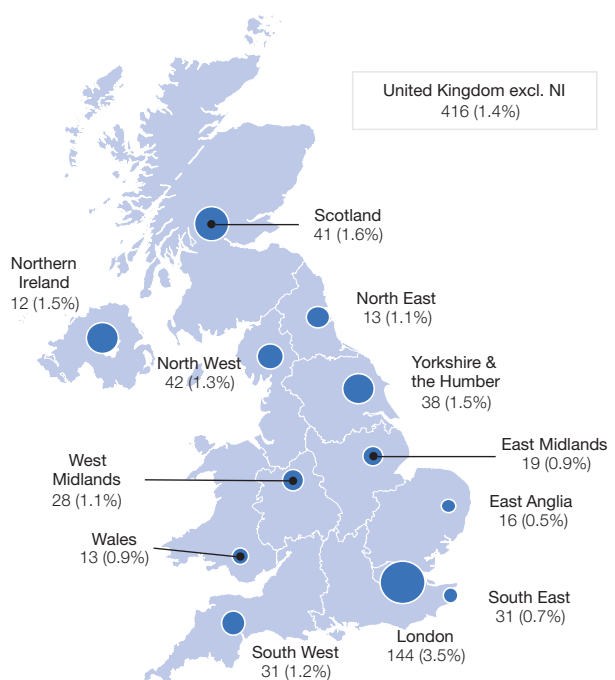
In 2014 the banking sector employed 405,000 people across the United Kingdom (excluding Northern Ireland).¹¹ Of these, around 30% are employed in wholesale banking, with many of their jobs depending on the UK's status as an international banking centre.

Figure 6: UK banking sector employment

UK banking sector staff by subsector
000s banking staff, excluding Northern Ireland



UK banking sector staff by subsector
2013, 000s banking staff, excluding Northern Ireland



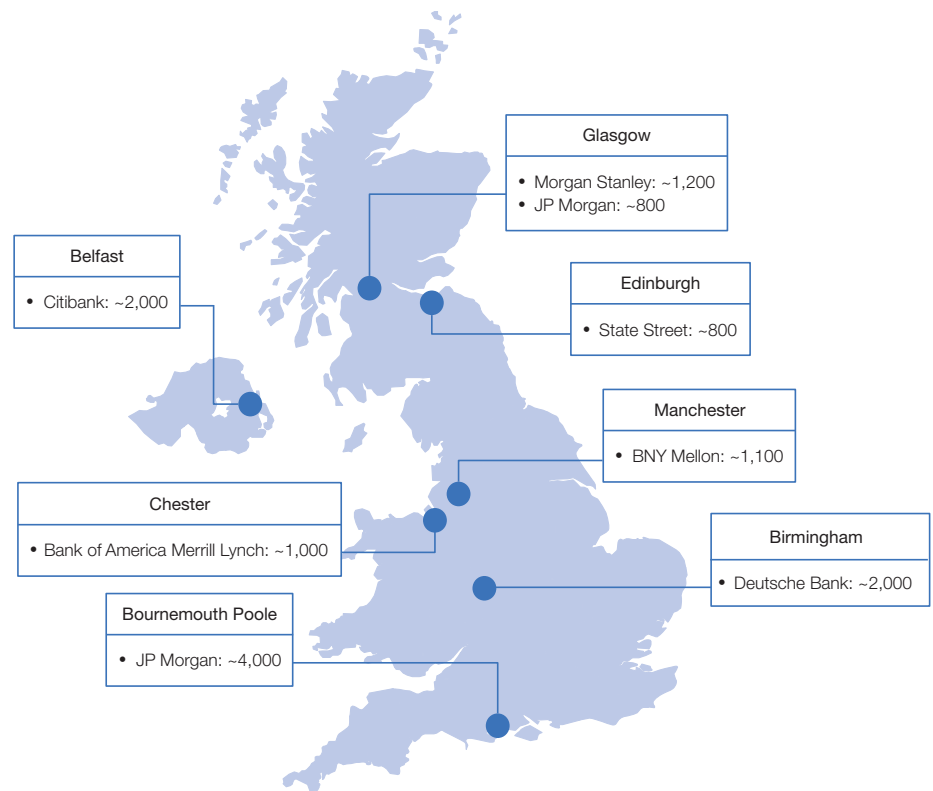
Source: Office for National Statistics (ONS), Oliver Wyman proprietary data and analysis
Note: Five-figure SIC2007 data not available for NI; 2013 estimate

¹¹ Figure excludes Northern Ireland as 5-figure SIC2007 data from ONS is unavailable; 2013 estimate for NI provided above

International banking also creates high-value jobs. The largest portion is in London, with 144,000 employees across the whole sector, largely in wholesale banking. Yet this accounts for only a third of banking jobs in the UK. Hubs exist elsewhere as international banks have established operations outside the capital. We estimate that over 15,000 direct banking jobs outside of London are due to the UK's role as an international banking centre.

Figure 7: Examples of regional centres of international banking

Regional centres of international banking 2014–2015, Examples



Source: Bank public reporting, Oliver Wyman analysis

Financial services as a whole remains the biggest export industry and the largest contributor to the UK's balance of payments, accounting for 45% of the UK's total surplus in services. The UK exports £62BN of financial services annually, making it the second biggest net exporter of financial services globally.¹²

Foreign Direct Investment (FDI) into financial services is also growing strongly. Office for National Statistics (ONS) data shows that investment has nearly tripled in two years. In 2013, the UK received £21BN in financial services FDI, representing a 53% increase from 2012. Of this, £11BN (52%) came from the EU (traditionally, the UK's largest source of FDI) and £10BN came from countries outside the EU.¹³

¹² Office for National Statistics (ONS), Balance of Payments Pink Book, 2014

¹³ TheCityUK, "The UK's competitiveness as a global financial centre", August 2015

3. Acting as good “corporate citizens”

The total tax contribution of the banking sector is significant: £31.3BN for the 2014 tax year. This makes up 5.5% of all government receipts, which is greater than the sector’s 4.9% contribution to national GVA. Around £13BN is from taxes on banks directly, including corporation tax and the bank levy (£2.2BN), while £18BN is levied on bank employees in income tax and national insurance. The overall tax contribution of the sector has returned to pre-crisis levels from its post-crisis trough in 2010, despite a contraction in the size of the sector measured by assets and employment. Approximately £16BN, just over half, of these taxes come from foreign-headquartered banks.

Figure 8: Banking sector total tax contribution

Total tax contribution of UK banking sector 2014, £BN

Type of tax	UK banking sector	% of govt. receipts
Corporation tax	1.6	4.1%
Bank levy	2.2	100%
Employment taxes	4.4	0.8%
Irrecoverable VAT	4.0	0.7%
Other taxes borne	1.0	0.2%
Total taxes borne	13.2	2.3%
Employment taxes	13.2	2.3%
Other taxes collected	4.9	0.9%
Total taxes collected	18.1	3.2%
Total tax contribution	31.3	5.5%
Of which foreign banks	16.0	2.8%

Source: BBA, PwC UK

Evolution of total tax contribution Index, 2008=100



Source: BBA, PwC UK

Comparing taxes across jurisdictions is extremely challenging due to banding, exemptions, deductibility, double tax treaties, and differences in accounting regimes. Nevertheless, comparing the top rates of different taxes across jurisdictions provides an indication of how UK tax contributions compare.

Figure 9: Illustrative comparison of top rates of tax across countries

Category	Tax	UK	USA	Sing.	HK	France	Ger.	Dubai
Bank-specific taxes	Bank levy	0.21% ²	---	---	---	0.25% ⁷	0.04%	---
Corporate taxes	Corporate tax	20%+8% ³	39%+7.1%	17%	16.5%	33.5%	33% ⁸	20% ⁹
	Capital gains	20%	39%+7.1%	0%	0%	33.5%	15%	---
Consumption taxes	VAT/sales tax	20%	8.9% ⁴	7%	0%	20%	19%	0%
Personal taxes	Income tax (top rate)	45%	52% ⁵	20%	17%	45%	42%	0%
	Capital gains ¹	28%	20% ⁶	0%	0%	45%	25%	0%

Source: EY, HMRC, Oliver Wyman analysis

Note: For illustration purposes, only top rates are shown

1. Capital gains tax on the sale of shares
2. Levied on the total chargeable equity and liabilities. Half-rate (0.105%) applies to long-term amounts
3. Additional 8% surcharge on banks; comes into effect January 2016
4. State-level tax
5. Base rate of 39.6% + 8.82% state + 4% city
6. Long-term capital gain
7. Applied over smaller perimeter than UK or German equivalents
8. Corporate income tax rate of 15% + 17% municipal + 15% solidarity surcharge
9. Bank-specific rate

The tax rates shown in the table explain some of the structural idiosyncrasies of the total tax contribution of UK banks, such as the large irrecoverable VAT component.

The banking sector also contributes to society via a range of corporate social responsibility programmes. These include direct donations, volunteering, training, sponsorship, and wider fundraising activities. The 2015 BBA report, “Good Returns – What banks are putting back into communities”, calculated that the industry contributed over £1BN in community projects and CSR activity during 2013.¹⁴ This has increased approximately 10% since 2010.

4. Contributing to the broader knowledge and services sector

The banking sector and, especially, international banking are important parts of the broader knowledge economy. Banking services are driven by human capital and technology. The characteristics of the banking sector are intrinsically linked to the broader high GVA, professional services, technology and other knowledge economy workers. These high GVA industries are key areas which will drive the long term sustainable growth of the UK economy. As such, the wholesale banking sector which is core to the development of this talent pool is critical for the broader development of the knowledge based economy in the UK.

¹⁴ BBA, “Good returns: What banks are putting back into communities”, February 2015

1.2.2. The risk of being an international banking centre

The benefits of a large banking sector are clear. As the financial crisis demonstrated, however, it can also carry risks.

Firstly, the essential nature of the services banks provide mean that their withdrawal has a negative impact on users, e.g. reduced access to credit. Secondly, a stress situation can result in direct losses for market participants, e.g. defaults, write-downs on asset valuations. Thirdly, despite reform, there is a risk major failures may still lead to direct exposure of UK taxpayers in extremis. All of these impacts can lead to significant impacts on the functioning of the broader economy.

The level of risks to the UK economy associated with wholesale banking is contingent on the sectors' resilience. As Mark Carney, Governor of the Bank of England said in a speech, "the UK can host a large and expanding financial sector safely, if we implement a reform agenda that extends well beyond domestic banking".¹⁵

Since the financial crisis, significant progress has been made in strengthening regulation of the banking sector. There has been global action through regulation and the adoption of standards to reduce the likelihood of bank failures, especially in the wholesale segment (e.g. higher capital and liquidity requirements) and in the event of failure, extensive recovery and resolution planning will work to ensure this happens in an orderly way and disruption to the real economy is minimised. Further, requirements for margining and central clearing have helped to reduce counterparty credit risk exposure in wholesale markets. Oliver Wyman estimates risk-weighted assets for wholesale banking have fallen 40% since 2010 on a Basel 3 like-for-like basis, while allocated equity has increased roughly 10%.¹⁶ In other words, bank leverage and hence risk has been significantly reduced.

The UK has made particular efforts to insulate retail banking from wholesale through "ring-fencing", which will ensure that failures in a bank's wholesale banking division do not threaten the creditors of the retail banking division, who are mainly individual depositors.

These protections also apply to the subsidiaries of foreign-owned banks operating in the UK through the extension of the supervisory regime which is currently in progress.

The second observation is that the size of a country's banking sector was not a good predictor of the broad economic national impact of the financial crisis. The UK banking sector is large relative to its economy; the ratio of banking assets to GDP is 450% in the UK compared to 375% in France and 275% in Germany.¹⁷ Yet the immediate impact of the crisis was similar in each country and the UK has recovered more quickly. In fact, it is now one of the fastest growing OECD economies. Spain, Portugal and Greece had far smaller banking sectors and very little international banking business, yet their economies fared far worse as a result of other structural economic factors.

International banking and, in particular, the foreign-headquartered banks were not important contributors to the downturn of the UK economy, or a burden on UK taxpayers during the financial crisis. The cost to UK taxpayers resulted largely from the failures of domestic and

¹⁵ Speech by Mark Carney, "The UK at the heart of a renewed globalisation", 24 October 2013

¹⁶ Oliver Wyman and Morgan Stanley, "Wholesale & Investment Banking Outlook 2015", 19 March 2015

¹⁷ Bank of England, "Why is the UK banking system so big and is that a problem", Q4 2014

retail banks. In contrast, the failure of Lehman Brothers in the UK had a negligible impact on the UK taxpayer, and makes a useful case study on the impact of an international banking failure on the domestic economy (see the figure below).

Box 1: Lehman Brothers case study¹⁸

The collapse of Lehman Brothers in 2008 is the largest and most recent example of the failure of a wholesale institution. At the date of default Lehman Brothers had \$639BN in assets. While US headquartered, Lehman Brothers also had significant UK-based operations from which it ran its EMEA business.

Following bankruptcy, parts of Lehman Brothers were acquired by other banks. Barclays purchased the North American piece of the business while Nomura purchased the Asian business and parts of the European business. The remainder was put under administration: Lehman Brothers Holdings Inc. (LBH) as the parent in the US and Lehman Brothers International (Europe) (LBIE) as its European subsidiary, the latter relevant to the UK.

The fortunes of creditors to the US-based parent and the UK-based subsidiary have differed markedly. Chapter 11 filings indicate only 26 cents on the dollar will be returned to the 70,000 creditors of LBH. On the other hand, as of March 2015, administrators of LBIE projected all 5,350 unsecured creditors would be made whole and a £5BN surplus would remain.

Overall, the benefits of international banking outweigh the risks to the UK economy under new strengthened capital, liquidity and recovery and resolution requirements. Retaining and growing the international banking sector should therefore be an important policy objective.

¹⁸ Lehman Brothers International (Europe), 2015; Lehman Brothers Holding Inc., 2015

Chapter 2

What is the future role of international banking centres and how well-placed is the UK?

2.1. Recent developments in the banking centre landscape

The nature of international banking, which includes capital markets, cross-border lending and payments, means it is to a degree internationally portable. Many of our contributors from non-UK banks commented that it is an active decision to conduct their international banking operations in and from the UK, and they could be carried out elsewhere if it was deemed more economically efficient to do so. Furthermore, this portability means customers are easily able to source banking services from alternative, more competitive locations. For example:

- Transnational corporates can host their global and regional treasuries in a choice of locations depending on their needs and legal entity structure
- Large borrowers can source credit from institutions outside of their primary domicile
- Investors and asset managers are able to deploy capital in foreign markets from almost any location

This portability is a risk to the ongoing strength of the UK as an international banking centre as other countries seek to attract portable international banking to their own shores. Contributors also pointed out that this means that the UK must not only be a “competitive” place to do business, but in order to continue to be a leading banking centre, it must remain the preferred global location.

The 2009 Bischoff review identified a growing number of emerging financial and banking centres.¹⁹ It urged policymakers and industry to consider how the UK could selectively nurture and collaborate with other centres to benefit from growth in financial markets across the world.

Figure 10: Development of the financial and banking centre landscape

International banking centre evolution

	1960s-80s London's re-emergence	1990s Internationalisation of London	2000s - pre-crisis Proliferation of financial centres
Landscape of international centres	<ul style="list-style-type: none"> · Varied regulatory and legal regimes · Development of Euromarkets · Big Bang and deregulation 	<ul style="list-style-type: none"> · UK / USA main global centres · Other large centres challenge (Frankfurt, Tokyo) · Few specialist centres (e.g. Switzerland) · International banks expand in London 	<ul style="list-style-type: none"> · UK centre for Europe · Emergence of Asian and Middle Eastern hubs · Banks go global; multiple financial centres · Banking model moves from agent towards principal (balance sheet) focus
Key success factors	<ul style="list-style-type: none"> · Size of domestic market · Depth of talent pool · Tax advantages 	<ul style="list-style-type: none"> · Financial innovation · Globalisation of issuers and investors - agency model predominates · English language · Openness to foreign corporations 	<ul style="list-style-type: none"> · Depth of liquidity · Network effects · Helpful regulation and tax regime · Development of balance sheet – shift to principal model with banks taking more risk
Drivers of change	<ul style="list-style-type: none"> · Deregulation of financial markets (e.g. 'Big Bang') 	<ul style="list-style-type: none"> · Technology (e.g. electronic trading) · New demand from emerging markets · Introduction of euro 	<ul style="list-style-type: none"> · Accumulation of leverage and risk · Financial deepening in new markets · Further technology improvements
Outcome	<ul style="list-style-type: none"> · Rapid growth of international banking activities · Step-change for UK / USA as international centres 	<ul style="list-style-type: none"> · Interconnectedness of major centres · New regional centres setting up · Growth in credit and liquidity 	<ul style="list-style-type: none"> · Web of financial centres · Many aspirational centres opening · Competition and collaboration between centres

Source: Oliver Wyman analysis

In the years since that 2009 report, the evolution of global financial and banking centres has responded to four trends:

1. **Fragmentation of wholesale banking markets:** Despite the efforts of the G20, Financial Stability Board (FSB) and UK authorities to coordinate the regulatory response to the crisis, there are areas where coordination has failed. For example, resolution regimes are nationally focused and will likely remain so. Nor have the US and EU implemented agreed global standards in the same ways or over the same timeframes.

These differences have led to significant differences in return across lines of business and country of operation. The lower returns available in wholesale activities have caused many banks to shrink the range of activities they engage in, and often to shrink their geographic

¹⁹ "UK international financial services – the future: A report from UK based financial services leaders to the Government", May 2009

“footprint”. Tax and capital treatment in the UK have encouraged banks to move activities to other financial centres, often back to their home markets. National resolution regimes have also reduced the mobility of risk between group legal entities in different countries.

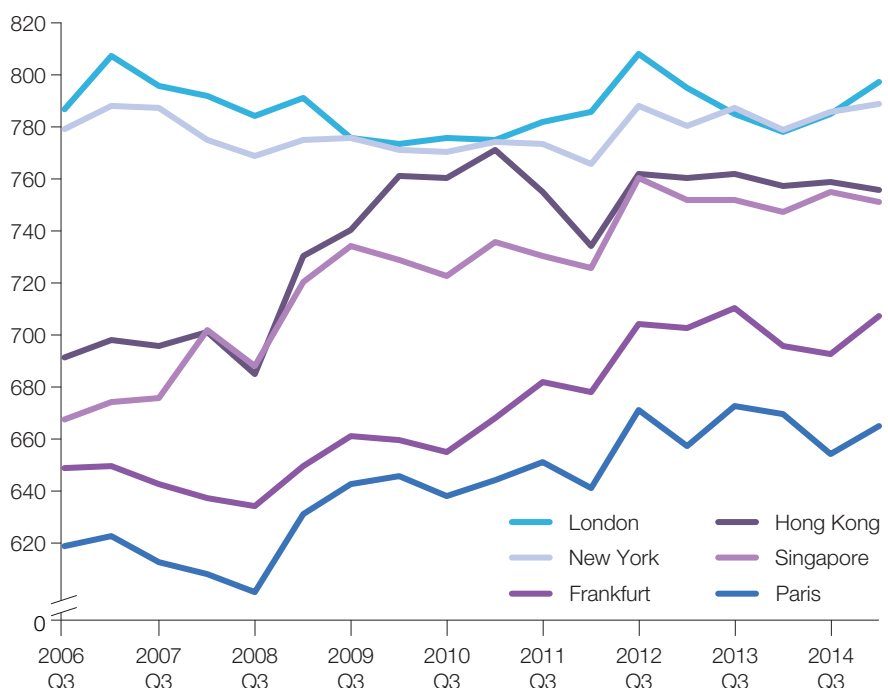
At the same time, the financial crisis has, perhaps surprisingly, not led to a reduction in the enthusiasm of most governments to host a financial centre. Since 2009, the trend towards regional financial and banking centres noted by Bischoff has only accelerated.

2. **Reduced leverage in banking:** Regulatory reforms have aimed at reducing banks' balance sheet leverage, primarily by increasing capital minima. Banks have responded by moving away from the principal model (“store risk”) back towards an agency model (“originate and distribute risk”). This has benefited banking centres that are also financial centres with strong investor and capital markets infrastructure.
3. **Economic growth:** The continued economic growth and deepening of markets across the world, especially in Asia, has continued the development of multiple regional banking hubs.
4. **Reduction in secrecy:** Secrecy in banking has been reduced under pressure from governments trying to reduce tax avoidance. This has reduced the appeal of banking centres for which secrecy was an important selling point.

The result of these trends is an increasing number of international banking and financial centres, and greater competition as smaller and regional centres have closed the gap to global leaders.

Figure 11: Reduction in perceived spread of capabilities across centres

Global Financial Centres Index rating 2006-2015



Source: Z Yen Global
Financial Centres Index,
Oliver Wyman analysis

Z Yen's Global Financial Centres Index (GFCI) now lists 82 established and aspirant financial centres, scored based on feedback from market participants. Some compete globally across a range of products and capabilities. Some choose a geographic or capability niche. All represent threats and opportunities for the UK. The figure above demonstrates how the perceived gap between established and aspirant is narrowing.

Figure 12: The multi-centred landscape in 2015

Category	Description	Examples
Global Financial Centre leaders	<ul style="list-style-type: none"> Multi-sector, multi-capability leadership across Banking, Insurance, Fund Management and relevant Professional Services True time-zone-differentiated global centres 	UK New York Singapore Hong Kong Tokyo
Global specialists	<ul style="list-style-type: none"> Capabilities in a sector or product with global reach 	Luxembourg, Geneva, Beijing
Leading regional centres	<ul style="list-style-type: none"> Financial or Banking Centres with broad capabilities serving a region, often with strong global linkages Often competing hard on cost or tax 	Europe: e.g. Frankfurt, Paris, Zurich, Dublin Asia: e.g. Shanghai, Seoul Americas: e.g. Chicago, Toronto Emerging: e.g. Johannesburg
Emerging Gulf Centres	<ul style="list-style-type: none"> Regional leaders for the Middle East Offering global capabilities to try to bridge the Europe-Asia gap Global centres for specialist Islamic Finance products 	Dubai, Qatar, Bahrain, Riyadh
Offshore Centres	<ul style="list-style-type: none"> Global booking centres usually competing on low tax and/or secrecy 	Channel Islands, Cayman, Bermuda
Local centres	<ul style="list-style-type: none"> Serving a specific country or market 	San Francisco, Boston, Toronto, Stockholm

2.2. UK positioning

In this multi-centred competitive landscape, the UK continues to enjoy significant advantages, some exogenous to financial services and some the result of financial policy.


Figure 13: Structural advantages and policy efforts


Structural advantages benefiting UK banking centre	Policy efforts historically benefiting UK banking centre
<ul style="list-style-type: none"> · English language · Central time zone positioning between other key markets (Asia, North America) · Legal predictability and enforceability · Global transportation hub, historically at least · Sizeable domestic market for financial services · Critical mass presence of all financial sub-sectors · Attractive, ex-pat friendly, lifestyle 	<ul style="list-style-type: none"> · Open and competitive financial markets mindset · Competent regulatory framework perceived as global standard-setter · Historically supportive, stable tax regime · Deep financial infrastructure, including access to the Single Market · Development of a deep talent pool, and attraction of a world-class workforce (including through immigration) · Leader in education, research and training · Strong network of professional services and business support · Strong industry bodies with good government-industry relations to stimulate growth in international financial services, starting with the Committee on Invisible Exports in 1968 · Government efforts to ensure needs of single currency bloc and banking union do not impinge on rights of the European Single Market


While some of these structural advantages are eroding, the UK has remained one of the top two global financial centres. However, for reasons we give in the next chapter, the UK cannot be complacent. Most international banks maintain a continuously-refreshed snapshot of location considerations for existing and new businesses. The evolving role of global banking centres and the narrowing gap to alternative locations, combined with evidence of threats to the UK's competitiveness, mean action is required.

Figure 14: Illustrative snapshot of location considerations for London versus other global and European centres

Location considerations		NYC	London	HK	Singap.	France	Germany	Comments
Regulatory environment	Structural reform (e.g. ICB)	●	●	●	●	●	●	<ul style="list-style-type: none"> US / UK / French / German capital & liquidity requirements much higher (e.g. leverage, TLAC) Unilateral UK regulation a major challenge However, US / EU also perceived as more proactive and secure in longer term HK / Singapore may regulate more heavily if exposure to international banking sector is increased dramatically
	OTC derivative reform	●	●	●	●	●	●	
	Capital and liquidity regulation	●	●	●	●	●	●	
	Corporate governance	●	●	●	●	●	●	
	Conduct and redress approach	●	●	●	●	●	●	
	Robustness of regulatory framework	●	●	●	●	●	●	
Tax environment	Bank Levy	●	●	●	●	●	●	<ul style="list-style-type: none"> UK bank levy more punitive compared to Germany and France High EU social costs (e.g. income tax / VAT) Tax regime much lighter in HK / Singapore Branch exemptions in US / France depending on circumstances
	Social costs	●	●	●	●	●	●	
	Corporate taxation	●	●	●	●	●	●	
	Treatment of branch profits / loss	●	●	●	●	●	●	
Financial markets depth	Liquidity pools and access to these	●	●	●	●	●	●	<ul style="list-style-type: none"> Depth of London / NYC markets unrivalled London also acts as gateway to Eurozone with wide international connectivity NYC less international but largest captive market France / Germany / Singapore / HK remain locally and/or regionally focused
	Client business flow	●	●	●	●	●	●	
	Global connectivity	●	●	●	●	●	●	
	Market infrastructure (e.g. clearing, CSDs)	●	●	●	●	●	●	
Geopolitical	Political and economic stability	●	●	●	●	●	●	<ul style="list-style-type: none"> EU referendum an uncertainty for UK competitiveness US / UK / Fr. / Ger. can support large bank sector HK exposed to mainland politics Singapore lacking sovereign balance sheet
	Sovereign strength	●	●	●	●	●	●	
	Time zone and language	●	●	●	●	●	●	
Other critical factors	Labour skills/ ability to attract/retain talent	●	●	●	●	●	●	<ul style="list-style-type: none"> NYC, London, Paris and Frankfurt benefit from local talent, but HK / Singapore easily accessible Concentration of international professional services in London / NYC attractive
	Supporting infrastructure	●	●	●	●	●	●	
	Network effects (legal/professional services)	●	●	●	●	●	●	

 Location benefit / attractive vs. other geographies

 Minor headwinds / consistent vs. other geographies

 Major challenges / burdensome vs. other geographies

Source: Oliver Wyman analysis

Chapter 3

What are the key threats for the competitiveness of the UK?

3.1. Global backdrop

The past eight years have been challenging for the whole economy and especially difficult for the international banking sector. The initial period after the crisis saw sharp corrections as assets were written-off or devalued and special purpose vehicles were restructured. This was followed by a range of corrective measures in the form of strategy, regulation and penalties. More recently, as banks have adapted and stabilised, their profitability has been put under pressure by the subdued macroeconomic climate and the impact of ongoing regulatory reform.

There is a significant body of literature concerning the regulatory response to the crisis. This document does not seek to provide another overview. Instead it considers the implications for future business models and for the UK's competitiveness as an international banking centre.

Regulation has had a fundamental effect on bank operations. The G20 laid out a reform agenda in 2009 rightly aimed at strengthening the banking sector and restoring faith in it.²⁰ This agenda had four main components:

- Building high quality capital and mitigating pro-cyclicality
- Reforming compensation practices to support financial stability
- Improving over-the-counter derivatives markets
- Addressing cross-border resolutions and systemically important financial institutions

²⁰ G20, "G20 Leaders Statements: The Pittsburgh Summit", 25 September 2009

This agenda has been implemented through work with the FSB. It has resulted in a cascade of standards, principles and rules at global, regional and national levels, which continue to feed through as policy agendas push ahead.

While the intention of the G20 financial reform agenda was global coordination of rules to supervise a global industry, this aim has not always been realised in practice. Countries have varied in their regulatory priorities and in the resources devoted to them. As a result the speed and quality of regulatory reform has also varied across countries. Some countries and regions have yet to implement the reforms at all, while others, including the UK, have sought to augment globally-originated regulation with either supplementary requirements (often referred to as “gold plating”) or accelerated implementation timelines.

Not all international inconsistency is a result of varying implementation of global rules. Resolution regimes are fundamentally national, and they have significant implications for local capital requirements and for the transfer of risk across borders.

The figure below shows examples of how the framework of global, regional EU and UK regulation has developed since the financial crisis.

Figure 15: Select regulation relevant to UK by scope and implementation status

Regulatory scope	Already implemented	Implementation underway	Consultations and investigations
Global regulation	<ul style="list-style-type: none"> Basel III liquidity rules (LCR/NSFR)¹ Basel III credit risk rules¹ Recovery and Resolution Plans ('Living wills') 	<ul style="list-style-type: none"> Basel III Leverage ratio 	<ul style="list-style-type: none"> Fundamental Review of the Trading Book (FRTB) Minimum Total Loss-Absorbing Capacity (TLAC)
EU-wide regulation	<ul style="list-style-type: none"> Benchmark regulation (e.g. LIBOR) Bank Recovery & Resolution Directive (BRRD) Capital Requirements Directive (CRD) IV Alternative Investment Fund Managers Directive (AIFMD) 	<ul style="list-style-type: none"> European Market Infrastructure Regulation (EMIR) Markets in Financial Instruments Directive II (MiFID II) Market Abuse Directive II (MAD II) Regulation on Securities Financing Transactions (SFT) 	<ul style="list-style-type: none"> Payment Services Directive (PSD2) Minimum Requirement for own funds and Eligible Liabilities (MREL)
Idiosyncratic UK approach		<ul style="list-style-type: none"> Ring-fencing (ICB) Senior Managers Regime / Certified Persons Regime FX remediation review Banking conduct regime 	<ul style="list-style-type: none"> Pre-emptive implementation of leverage ratio Consultation on branch supervision (PRA) Investigation into personal current accounts and SME services (Competition and Markets Authority)

Source: Oliver Wyman analysis

1. Largely implemented in the UK; implementation still in progress for several other jurisdictions

This quantity of regulation and global inconsistency create significant challenges in implementation:

- **Duplication:** There is a risk of unintentional duplication or overlap between rules as regulators legislate for similar but not identical issues in similar but not identical ways.
- **Creation of an unlevel playing field:** If extraterritoriality and equivalence rules are not managed carefully, business may be subject to multiple sets of rules. The application of more stringent rules to banks' global operations disadvantages them in countries with lower requirements where the domestic competitors face lighter regulatory burdens.
- **Implementation complexity:** Regulatory complexity increases compliance costs. Since compliance costs are partly fixed, complexity creates advantages of scale and is especially challenging for smaller banks.
- **Regulatory competition and arbitrage:** Centres may grow by offering "light touch" regulation and thus a reduced cost of business, but thereby introduce systemic risk into the global regulatory system.

Overall, the industry benefits from a fair, transparent and predictable regulatory regime. It is with this objective in mind we consider the UK's competitiveness.

The impact of regulation on the banking sector has already been visible in global returns. Oliver Wyman research shows that from 2000 to 2006 return on equity (RoE) for the wholesale banking industry averaged approximately 18% per annum. In the period from 2011 to 2014, this had fallen to 10%. Oliver Wyman estimate an incremental reduction of -1.5% through 2014, with a further -2% to come before 2017.²¹

European banks have been more adversely affected. From 2010 to 2014, the wholesale banking market share of the top five European banks (measured by revenue) has fallen from 26% to 24%. At the same time, the share of the top five US banks has risen from 44% to 48%.²²

While these trends conflate regulatory effects with other structural and macroeconomic trends, they highlight the challenging environment for banks operating in Europe. Given the role of the UK as a European banking centre and gateway to Europe for the rest of the world, they are important features of the situation giving rise to this report.

In the following section we examine the extent to which the UK specifically has been impacted, both in absolute terms and relative to other international banking centres.

3.2. Recent health of the UK banking sector

Several measures of sector performance suggest that the UK's pre-eminence as an international banking centre is under pressure:

- **Reduction in UK banking sector assets:** Assets in the UK banking sector have shrunk by 12% since 2011, partly driven by contraction in the wholesale segment, which has shrunk by 5%. While bank assets in the UK have shrunk, competing centres have grown: the US +12%, Hong Kong +34% and Singapore +24%.

²¹ Oliver Wyman and Morgan Stanley, "Outlook for wholesale and investment banking 2015", 19 March 2015

²² Oliver Wyman proprietary data and analysis

- Reduced employment in UK banking sector: Employment in the UK banking sector has fallen by 8% (35,000) since 2011, of which roughly a quarter has been in wholesale.
- Challenge to UK market share in important products: In activities directly driving capital formation, such as international cross-border lending and initial public offerings of equity, the UK market share is static or falling. However, the UK's global market share in traded and risk management products such as foreign exchange and derivatives not only remains high but is climbing.
- Survey evidence of bank decisions to move activity away from UK: A recent survey of BBA members revealed that two thirds of respondents had moved activity and jobs away from the UK, and more were considering doing so. This was corroborated by the feedback from contributors to this report.

These issues are addressed in more detail below.

Reduction in UK banking sector assets

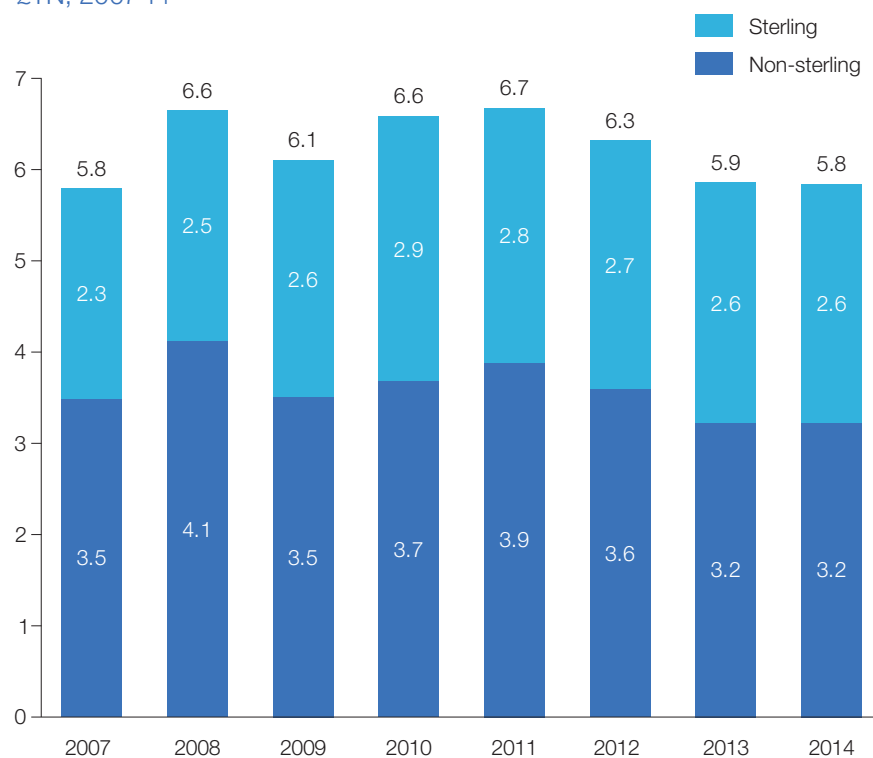
Following a recovery through 2009-10, assets of the UK banking sector have contracted 12% since 2011 (excluding the effects of quantitative easing by the Bank of England). This pattern is the same across loans and securities. Both have fallen within the 10-15% range, with most of the decline occurring in non-sterling assets. Only part of this decline is due to deliberate shrinkage in the balance sheet of institutions under partial public ownership.

Figure 16: UK banking assets over time

UK banking assets by asset type £TN, 2007-14



Banking assets by currency denomination £TN, 2007-14



Source: Bank of England, Oliver Wyman analysis

Note: Excludes central bank assets and unclassified non-loan and non-security assets

For the wholesale segment, most relevant from an international competitiveness perspective, assets were about 5% lower in 2014 than in 2011.

Figure 17: UK banking assets by segment and parent location over time

UK banking sector assets by segment
£TN



Source: Bank of England, Bankscope, bank public reporting, Oliver Wyman analysis

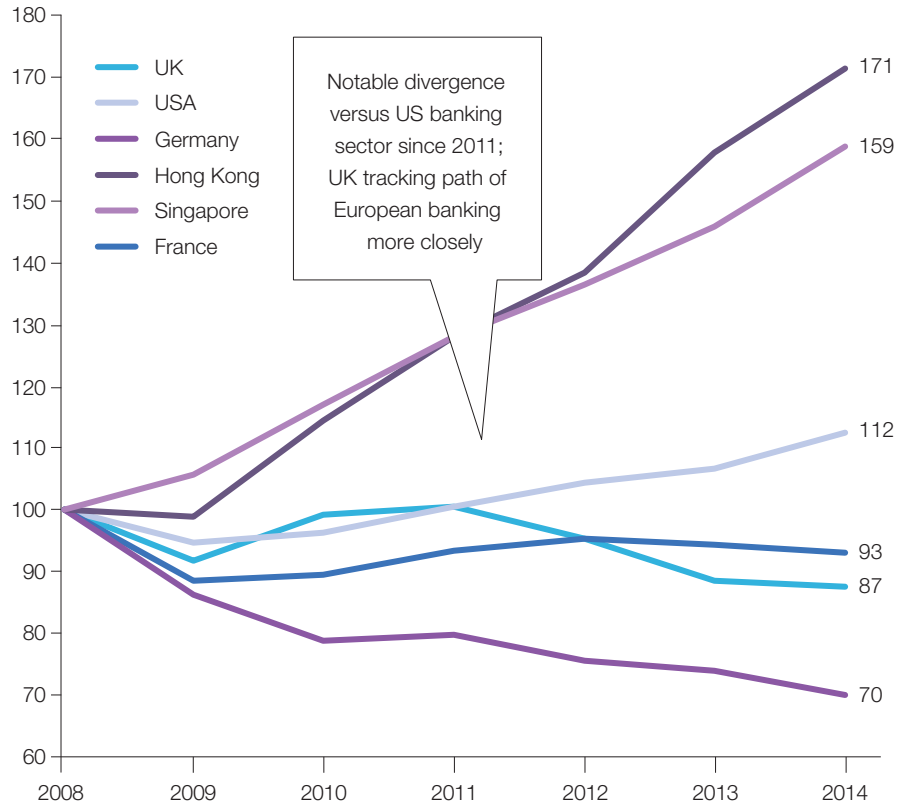
Note: Excludes central bank assets

Comparing headline asset growth to other key banking centres shows that, having recovered at a similar pace to the US through 2009-11, growth in the UK has since declined, contracting faster than Germany and France while US assets have continued to grow. Over the whole period, the Asian centres of Hong Kong and Singapore have grown consistently and significantly. In 2010, three UK banks were among the world's ten largest; today only one is.²³

²³ The Banker, "Top 1000 World Banks", June 2015

Figure 18: UK banking assets growth versus over countries

Banking assets by country
2008-2014, Index, nominal prices



Source: Bank of England, Hong Kong Monetary Authority, European Central Bank, Federal Deposit Insurance Corporation, Monetary Authority of Singapore, Oliver Wyman analysis
Note: Some differences in perimeter exist between countries due to varying definitions between reporting bodies

Stable or declining UK share of some key international banking markets

Since 2007 global foreign exchange (FX) and over-the-counter (OTC) interest rate derivatives volumes have continued to grow consistently. However, UK volumes have grown even faster, demonstrating the robustness of that segment of the industry. On the other hand, the UK's share of cross-border lending has plateaued, and in cross-border initial public offerings (IPOs) it has declined. Several of our interviewees raised concerns that the UK risks being left with a more volatile capital markets industry while losing share in products associated with capital formation.

Figure 19: UK share of key international banking markets

UK share in selection of international banking products 2007-13

Product	2007-10 average		2010-13 average		UK trend
	Global volume	UK share	Global volume	UK share	
Foreign exchange	\$3.7TN	37%	\$4.7TN	39%	↗
Interest rate OTC derivatives	\$2.4TN	45%	\$2.7TN	48%	↗
Cross-border lending	\$23TN	21%	\$22TN	20%	→
Cross-border IPOs	43% ¹	29%	43% ¹	22%	↘

Source: Bank of International Settlements (BIS), Dealogic, Oliver Wyman analysis

1. Proportion of top 100 IPOs by value that are cross-border

Reduced employment in UK banking sector

Employment in the banking sector has fallen since 2011 by around 8% in total. While a large portion has been driven by a decline in retail banking employment, approximately 10,000 jobs have also been lost from the wholesale banking segment. Public announcements and the result of our BBA survey suggest that this has been both a response to overall pressure on profits and, in some cases, a desire to move activity away from the UK.

Survey evidence of bank decisions to move activity away from UK

A recent survey of BBA member banks reinforced the view that while the sector has appeared reasonably robust, there are clear risks to the UK's competitiveness:

- 65% of respondents from international banks surveyed had moved activity away from the UK over the past five years
- Employees had been relocated, ranging from five to several thousand people, predominantly middle and back office employees but also some front office desks
- 41% of responding banks had also relocated activities that generate assets and liabilities
- Most concerning is that 53% of respondents believe there is a rationale for reducing the scale of their organisation's business in the UK from current levels

Taken together, this evidence makes it clear that some aspects of the UK's positioning remain robust but that other historical competitive advantages are eroding as other centres compete to attract international banking activity. Concerted action across the industry, regulators and government is required to ensure the UK remains competitive.

3.3. Threats to international banking in the UK

In the course of producing this report, we received contributions from over 30 international banking players, including foreign banks and UK wholesale banks. Many raised concerns about the stability of the factors that make the UK internationally competitive, with common themes emerging:

- **Declining profits in wholesale business globally:** As a result of increased global regulation, wholesale businesses have shrunk significantly globally. This has a more pronounced effect for centres with a large wholesale sector and makes all centres vulnerable to unilateral regulation.
- **Unilateral Regulation:** Regulatory balkanisation is a significant cost to banks and their customers. Exacerbating this through unilateral UK regulation which differs from the regimes of other national regulators can damage the sector. Examples include structural reform and early adoption of leverage rules, which are addressed later in this report.
- **Extraterritorial Regulation:** Regulations that follow banks operating in foreign markets place them at a structural disadvantage when competing with banks that are domestic to those markets. Several EU regulations make it difficult for EU-headquartered firms operating abroad. The most common examples cited by our contributors include the bonus cap in the Capital Requirements Directive (CRD IV), the application of the EMIR requirements on trading OTC derivatives and the current drafting of the European bank structural reform requirements.
- **“Wimbledonisation”:** Some have suggested that the UK should provide the playing fields for international banking but reduce the risks to taxpayers by not providing the players. However, our contributors largely believed that the loss of UK GSIBs is a key threat to the UK’s ability to influence global policy on banking and wider economic issues. The industry agrees with the Governor of the Bank of England that general contraction in the size and reach of UK banks may diminish the UK’s standing in key financial markets.²⁴ Furthermore, UK-headquartered wholesale banks protect against the risk of credit and/or liquidity being withdrawn from the UK by foreign banks when faced by shocks outside of the UK.
- **Tax uncertainty:** Uncertainty about tax rates makes business planning difficult and discourages investment, including FDI. For example, following the Chancellor’s June 2010 Budget announcement of the Government’s intention to introduce the bank levy, the rates and application of the levy were changed ten times up until the July 2015 Budget. International banks have moved balance sheet intensive activities as a result. In addition, the application of the bank levy to all legal entities of UK-headquartered banking groups hinders their ability to compete abroad.
- **Continuing to benefit from the Single Market:** The UK is the financial centre of the European Union and a gateway to European financial markets for many international players, partly on account of the ability

²⁴ Speech by Mark Carney, “The UK at the heart of a renewed globalisation”, 24 October 2013

of a firm established in one EEA market to “passport” its services into another. Approximately 60% of all European capital markets business is executed through the UK.²⁵ The members of the BBA believe the Single Market for wholesale financial services to be a key factor in the attractiveness of the UK as an international banking centre and a significant asset to the EU as a whole.

- **Talent:** The UK labour market and talent pool has been an important attraction for foreign banks. The BBA wants working in the UK to be seen as a crucial step in the career of any senior international wholesale banker, anywhere in the world. New rules for the registration of executive and other regulated personnel risk making it harder for international senior leaders to relocate here, as do visa restrictions that are inconsistent with the government’s inward investment goals. Our survey of market participants also revealed concerns about the tax treatment of training programmes driving these important programmes to locations outside the UK.
- **The growth in viable competing international banking centres:** Since 2011, banking assets in Hong Kong and Singapore have grown at a 10% and 7% compound annual rate, respectively. Independent research on the competitiveness of banking centres shows that while the UK is firmly in the leading duo (with the US), other centres, particularly in Asia, are increasingly competitive. This trend is expected to continue in the future, making these centres credible alternatives to the UK for hosting international banking.

²⁵ Oliver Wyman proprietary data and analysis

Chapter 4

What are the future opportunities and implications for industry, policy-makers and regulators?

Drawing on the analysis, we have identified five critical factors in maintaining the UK's status as a leading international banking centre:

1. A coherent national vision for the role of international banking as part of the UK economy, and joined up government around this
2. A sound global regulatory framework back by consistent principles, rules and standards
3. Predictable and proportionate application of an effective regulatory framework, aligned with UK policy objectives
4. Promoting the UK as a centre for highly skilled banking employees and a driver of employment across the nation
5. Support for growth and innovation

For each of these factors, we below identify what is now working well in the UK today and what could be improved. In turn, we recommend actions for the industry, regulators and the government.

4.1. A coherent national vision for the role of international banking as part of the UK economy, and joined up government around this

What is working well in the UK today?

Many of our contributors welcomed the change in tone from the new government. In particular, they noted the “new settlement” for a “fair deal for the taxpayer and a regulatory system that protects all those who rely on banks” coupled with a raised ambition to make “Britain [the] best place for European and global bank HQs” outlined in the Chancellor’s Mansion House speech on 10 June 2015.²⁶ They recognised the actions already taken to achieve this “new settlement”, including important changes to the Senior Managers Regime and the proposed reduction in the bank levy.

They also welcomed the tone of Mark Carney, Governor of the Bank of England, who has consistently publicly stated his support for the financial services sector in the UK, noting that “if organised properly, a vibrant financial sector brings substantial benefits” and that “London’s markets serve a vital global role. London acts as Europe’s window to global capital, is a centre of emerging market finance, and can play an important role in the financial opening of China”.²⁷ The Governor has refused to accept a cap on the size of bank balance sheets in the UK, stating that “it is not for the Bank of England to decide how big the financial sector should be. Our job is to ensure that it is safe. The UK can host a large and expanding financial sector safely, if we implement a reform agenda that extends well beyond domestic banking.”

Non-UK banks welcomed the openness of the Treasury and the Bank of England in working together to support the financial sector, comparing them favourably to government agencies in their own countries. Some senior contributors also noted that the UK in general sent a welcoming tone to foreign banks that other countries did not.

These sentiments are an excellent starting point for a coherent national vision.

Further opportunities

As outlined in Section 3, international banking is changing as global regulatory reforms come into effect, reducing returns to some lines of business. Being home to much of this global activity, the UK is disproportionately affected.

The regulatory framework is not yet fully settled. It will need to evolve as its impact on bank activities becomes clearer and the market changes. A clear vision for the future of international banking in the UK and anticipation of what this will require from a legal and regulatory perspective is critical.

Once the vision is established, all government departments will need to take a joined up approach to implementing it. Contributors noted that in recent years there have been instances where contradictory actions were taken by various government bodies. For example, the Prudential Regulation Authority (PRA) has provided banking licenses to foreign banks following encouragement by the Treasury to accelerate applications, only

²⁶ Speech by Chancellor of the Exchequer, RT Hon George Osborne MP, “Mansion House 2015”, 10 June 2015

²⁷ Speech by Mark Carney, “The UK at the heart of a renewed globalisation”, 24 October 2013

for the Home Office to then refuse visas for the employees necessary to run the business.

At a high level, willingness to coordinate is good relative to some geographies. However, contributors felt there is significant room for improvement in its day to day implementation and more a formal approach to coordination was needed.

The international financial sector in the UK extends far beyond banking, comprising investors, asset managers, private banks and insurers. While the scope of this review was narrowly on the banking sector, the BBA recognises that the health of the whole ecosystem should be considered and calls on other trade associations to collaborate to understand how these others areas can be further supported.

Recommendations

Action	Details
Set a government "vision" for international banking as part of the future UK economy	<p>HMT: Build on positive sentiment to publish a clear vision for the role of international banking within the UK economy in the medium and long term, acknowledging and endorsing the importance of to the UK domestic economy</p> <p>HMT, PRA, FCA, CMA, Home Office, other relevant government bodies: Publish a joint regulatory philosophy statement setting out the overarching principles which guide the UK's collective approach to regulation of the sector and policies that promote the UK as a global financial centre</p>
HMT to set up a formal administrative process to facilitate coherent government and regulatory action in support of this vision	<p>HMT: Set up a formal body with responsibility for ensuring delivery of this vision and regulatory approach across government departments and regulators, chaired by the Chancellor and including the Governor of the Bank of England</p> <p>Government: The Economic Secretary to the Treasury should report annually to Parliament on the work of the proposed body above</p>
Industry associations to review and recommend UK policy strategy actions that could support the broader financial sector in the UK	<p>Relevant trade associations: Investigate and advise government on areas of policy which could be augmented to provide further support to the broader financial sector in the UK. In particular, TheCityUK could provide a valuable cross-sectoral review.</p>

4.2. A sound global regulatory framework backed by consistent principles, rules and standards

What is working well in the UK today?

As an international banking centre, the UK stands to benefit from a coordinated global framework for prudential and conduct regulation and standards. The commitment of the UK regulators to operating a regulatory regime of the highest global standard is essential to the overall success of the sector, and is commensurate with the role of a leading international banking centre. This has been achieved in some areas through work with the G20 and Financial Stability Board (e.g. OTC derivatives reform, Basel 2.5 and 3, recovery & resolution), chaired by the Governor of the Bank of England.

As a result of the crisis the UK regulators have shifted from a principles-based, light-touch approach to a more proactive, rules-based approach. However, rules by their nature can never cover all eventualities, particularly in the conduct space. Thus the best model has to be a combination of principles, rules and industry standards. The addition of an effective standards framework provides the necessary flexibility to support innovation but also ensure a clear understanding of good practice enforced by the industry.

The UK government and regulators have long been open to a standards-based approach and have been leading this globally, with the request for the creation of the Banking Standards Board and the FICC Market Standards Board (FMSB), which the industry welcomes and is actively participating in.

Further opportunities

As part of the EU, the UK must adopt EU legislation. The EU has gone further than the global standards in many areas, taking a more rules-based approach (e.g. MiFID II). In several instances the extraterritorial application of these rules has placed EU-headquartered firms at a disadvantage when operating in non-EU locations where local firms are not subject to the same stringent requirements. In particular, the current extraterritorial application of compensation rules (bonus caps, deferrals etc.) puts EU-headquartered firms at a disadvantage in attracting the best staff in a globally mobile market when operating outside the EU.

Recommendations

Area	Details
BoE to continue to take an active role in setting the global regulatory framework	<p>BoE: Continue to be proactive in providing input to global standard setters, using the FSB as a forum where necessary to coordinate output from different bodies</p> <p>PRA/FCA: Work with global and pan-regional regulators to drive coherent implementation of globally agreed standards</p> <p>Industry: Ensure all players engage constructively with UK regulators, European bodies and international standard setters to inform the regulatory debate</p>
EU to align regulation with these global standards	<p>European Parliament/Commission/Council: Ensure EU regulation is aligned with global standards as far as possible: for example, use the Financial Markets Regulatory Dialogue to seek consistent transatlantic implementation</p> <p>European Parliament/Commission/Council: Push for financial services to be included as part of the Transatlantic Trade and Investment Partnership (TTIP)</p>
European Commission to ensure the extraterritorial nature of regulation does not create an uneven playing field for EU firms aboard	<p>European Commission: Amend inter-institutional agreement on better regulation and better regulation guidelines to include a presumption against extraterritorial regulation. Provide a framework for establishing the cost/benefit of any extraterritorial measures, including macro-economic impact</p> <p>European Commission: Review key banking regulations with potential extraterritorial impact and guard against adverse outcomes; regulation includes Bank Structural Reform, bonus cap in CRD4, and EMIR requirements on trading OTC derivatives</p> <p>European Commission: Adopt an outcome-based approach instead of a like-for-like rules-based approach for assessing third country equivalence, with consideration of the differing size and complexity of sectors, differing regulatory timelines, wider relationships, and the importance of avoiding reciprocity</p> <p>European Commission: Improve equivalence process by introducing an independent arbiter to apply the outcome-based approach outlined above, and enabling the EU to initiate equivalence process</p>

Area	Details
UK industry and trade associations to build stronger relationships with peers across Europe and globally to influence this debate	BBA/Industry: Commit more strongly to interactions and collaboration with the industry across Europe, and more widely, to push for common interest solutions, in the knowledge that other markets will also benefit (and may benefit more than the UK). Support similar initiatives by other industry bodies: e.g. European Banking Federation, International Banking Federation
Industry and regulators to strengthen the role of market standards and develop a coherent framework in which they are applied	<p>BBA/Industry: In the short term, support the efforts currently underway (e.g. FMSB, Banking Standards Board), in part, through advocacy in international forums (e.g. IOSCO)</p> <p>Industry: In the medium term, work to bring the multiple efforts currently underway into a coherent framework</p> <p>PRA/FCA: Support the efforts above through the regulatory framework where necessary and also in international regulatory forums (e.g. FSB)</p>

4.3. Predictable and proportionate application of an effective regulatory framework, aligned with UK policy objectives

What is working well in the UK today?

All contributors recognised that the broad programme of reform being undertaken by UK policymakers and regulators has helped to reform the sector and provide a solid footing for growth. They noted UK proactivity in specific areas such as conduct, such as the Fair and Effective Markets Review.

Contributors also supported the steps the government has taken to improve new rules in areas such as ring-fencing and the Senior Managers Regime. They mostly welcomed the new certainty around tax on the international banking sector, delivered in the most recent budget, albeit with some concerns that are outlined below.

Further opportunities

The first wave of regulation has now been implemented. The new rules can be evaluated and areas for improvement identified. While broadly welcoming regulatory reform, contributors pointed to areas where reform is inconsistent across jurisdictions, fails to meet the underlying regulatory objectives (for example, the current approach to redress) or could be more efficiently implemented (multi-regulator relationships, regulation of smaller banks and ring-fencing). They also noted areas where further certainty would be welcome, such as corporation tax and the bank levy. These are addressed in turn below.

Neither regulatory competition nor super-equivalence is in the interests of UK banking clients and the UK economy in the long term. Yet there are areas where the UK has “gold plated” international rules beyond a level that

appears to offer greater protection to UK taxpayers: for example, the early application of liquidity requirements and compensation requirements which exceed the requirements of CRD IV. In some instances the UK has taken a unilateral approach to regulation, for example, in the structural reform of universal banking by way of “ring-fencing”.

With respect to wholesale conduct regulation, the FCA’s mandate has expanded significantly in recent years, for example, to include payday lenders and payments systems. Contributors noted that while the focus of the FCA has rightly been consumer protection, this has very different application across retail and wholesale markets. Wholesale expertise within the regulator is required to ensure the appropriate application of conduct and consumer protection rules to these markets.

The current remit of regulators covers supervision, penalty and redress. This can distort incentives and create the potential for regulatory moral hazard and political influence. Many contributors believed that an independent body responsible for redress would result in better outcomes, not only for banks but also for their customers in ensuring rigorous alignment of redress amounts with the cost of any misdeed.

Many contributors from foreign banks said that multi-regulator oversight often leads to multiple layers of reporting and compliance requirements to satisfy the same regulatory objective in multiple jurisdictions. This is inefficient for both regulators and banks, and contributors identified ways that compliance could be streamlined without increasing risk or obscuring the oversight of UK and global businesses. These suggestions are outlined in the table of recommendations below.

Regulation places a disproportionately large burden on smaller banks that are less able to absorb the cost of the increasing complexity of the regulatory environment. Many of the smaller banks interviewed said that this has stifled their growth and prevents them locating business and jobs in the UK. When foreign banks are small and have strong home regulator oversight, it should be possible to simplify the regulatory requirements they face in the UK without increasing the systemic risk to the UK economy.

Whilst welcoming recent changes to the bank levy, many contributors pointed out that the tax treatment of banks has changed many times in the last five years. This uncertainty contradicts the principles of predictability, stability and simplicity advanced in HMT’s 2010 paper, “Tax Policy Making: a New Approach”.²⁸ The BBA asks for greater certainty going forward to allow its members to plan their business footprint accordingly. It also notes that the application of the bank levy to all legal entities of UK-headquartered banking groups hinders their ability to compete abroad.

²⁸ HM Treasury and HM Revenue & Customs, “Tax policy making: a new approach”, June 2010

Recommendations

Area	Details
PRA and FCA to align UK regulation with these global standards	<p>FCA/PRA: Ensure the risk profile adopted by UK regulation is not materially tighter or implemented sooner than global standards without clear demonstrated and documented benefit to the UK economy</p>
Government, FCA and industry to take action to increase operational separation and deepen wholesale market conduct expertise in the FCA	<p>Government: Consider how wholesale market conduct supervision can be strengthened through further specialisation within the FCA</p> <p>Government: Consider increasing operational separation of supervision and enforcement and wholesale and retail to increase transparency, fairness and focus</p> <p>FCA: Consider how the above objectives can be achieved and bring forward proposals</p> <p>Industry: Provide secondees to the FCA to support knowledge transfer in both directions</p>
Regulators to conduct “horizontal review” of regulation	<p>HMT: Conduct a horizontal review, akin to that proposed by Commissioner Hill for the EU, of the new UK regulatory regime as a whole to identified unintended consequences and areas where objectives are not effectively met</p>
Government to consider separation of responsibility for redress from current FCA mandate to a new independent body	<p>Government: Consider the creation of a new independent body responsible for penalty and redress decision making</p>
Industry and regulators to work to ease the multi-regulator burden; consolidation of requests; data repositories or regulatory interface utilities	<p>Industry/BoE: Create a multi-bank regulatory reporting utility, paid for by banks but catalysed by HMT/BoE to help meet regulatory burdens</p> <p>PRA/FCA: Work more closely with home regulators of smaller banks:</p> <ul style="list-style-type: none"> · Support common data repositories and templates to underpin the college of regulators, particularly on stress testing and recovery and resolution · Compromise to align requests across regulators
Authorities to consider adapting the regulatory approach for smaller entities	<p>EU: Reconsider application of the Basel rules to smaller institutions, as applied in other countries</p> <p>UK government: Consider an amendment to Ring-fenced Bodies and Core Activities Order to inflation-proof the current threshold of £25BN in core deposits to allow headroom for smaller banks over time</p> <p>HMT: Reconsider thresholds for bank-specific taxation</p>

Area	Details
<p>PRA and FCA to support bank adaptation to ring-fencing; keep regulation under review</p>	<p>HMT/PRA/FCA: Understand that ring-fencing is a fundamental and hugely complex overhaul of UK banking services; there is a need to ensure that regulatory and other requirements are in keeping with the statutory objectives without unnecessarily adding to the burden, for example, in areas such as intragroup transactions and legal entity arrangements</p> <p>PRA/FCA: Keep the ring-fencing rules open to regular review for effectiveness in light of changing market and regulatory landscape</p> <p>Industry/HMT/PRA/FCA: Given the widespread impact on customers and others (e.g. employers for salary reasons, utility companies etc.), recognise the need for a clear communication programme on the scale and timing of change to the UK banking infrastructure from banks, government and the regulatory authorities</p>
<p>HMT to provide certainty on the tax regime and ensure it is internationally comparable</p>	<p>HMT: Minimise future changes, establishing a stable policy linked to the “vision” of the sector as outlined above</p> <p>HMT: Following from the above, the BBA asks that HMT consider the following actions with respect to bank-specific taxes:</p> <ul style="list-style-type: none"> · Review the timeframe over which the bank levy can be removed, including bringing forward to the current parliament the effective date for a move to taxing only UK liabilities. · Provide an indication to the industry the surcharge be seen as a temporary counterbalance to historically low corporation tax receipts, thereby allowing for a surcharge reduction as this corrects · Consider refinements to the design of the surcharge with regard to in threshold allowance or scope · Confirm that from 1/1/16 levy payments will not suffer from double taxation.

4.4. Promoting the UK as a centre for highly skilled banking employees and a driver of broad employment across the nation

What is working well in the UK today?

International banking generates economic value per employee twice as high as the UK average, and with jobs spread across the country.

The UK has long been a centre of high quality talent, bolstered by strong universities, the traditional strength of financial and professional services, and the draw of London as an international city. These remain core strengths today.

UK banks have also strengthened apprenticeship opportunities in the industry. Banking apprenticeships are available in a wide variety of roles, for anyone over the age of 16 and right across the country, with three-quarters taking place outside of London. Banks in the UK have created

4,000 apprenticeships in 2015 and, looking ahead, nearly half of BBA members plan to expand their apprenticeship programmes. Since 2012, banks in the UK have created nearly 9,000 apprenticeships.²⁹

Several international banks and most of the large UK wholesale banks have built strong employee bases in major regional centres outside London, spreading the benefit of high-GVA jobs across the country.

Further opportunities

Contributors voiced a range of concerns about the ability to attract and retain talent in the UK, relevant to both senior and junior positions. Some of these concerns relate to the practical challenge of locating staff in the UK, while others relate to international competition for the required staff.

Contributors agreed with the fundamental objectives of the Senior Managers Regime, that senior executives be responsible for their actions, and supported the changes the government has already made to avoid unintended outcomes. However, many still noted the risk of new rules for executive and other regulated personnel dissuading global management from locating in the UK, thus reducing the importance of the hub as a management centre. Given the desire of junior employees to be located in the same place as management, this could be generally detrimental for the UK as a centre of banking employment.

The current limitations on skilled worker visas, combined with tax treatment of temporary relocations (e.g. for training programmes or other more junior but developmental assignments) is detrimental to developing talent in the UK and the wider dissemination of the high standards upheld in the UK's international banking market. One contributor explained that their bank is no longer running international training programmes beyond a week in length in the UK due to the challenges with tax treatment for non-residents. Many BBA members reported that they have recently had work visas refused for critical non-EU employees.

The new certification regime requirements will also make it harder for overseas employees of international banks to make occasional visits to the UK, for instance, to meet with their UK clients without being certified prior to doing so.

Banks raised concerns that these issues may further hinder their ability to compete with other sectors and internationally for newly in-demand skillsets, such as digital and cyber-crime expertise.

A number of supplementary concerns were raised around the “on-boarding” process for senior employees that are also reflected in the recommendations below.

The central government is investing in “the regions” of the UK, notably in transport and housing infrastructure. This has facilitated the expansion of financial services outside of London. This expansion in lower cost locations – such as Manchester, Birmingham, Belfast, Bournemouth and Chester – has contributed to employment growth and the flourishing of local economies. The banking sector has taken the first steps, opening the door for other financial sector organisations to follow. Smaller and challenger banks looking to grow their UK operations should focus on similar opportunities.

²⁹ BBA, “Banking on British Jobs”, 26 October 2015

Recommendations

Area	Actions
Industry to implement clear responsibilities and accountability framework and embed through culture	<p>Industry: Implement clear responsibilities and accountability framework to support implementation of Senior Managers Regime; encourage a culture of accountability to support the formal framework</p>
PRA/FCA to address current regulatory obstacles to senior talent attraction and retention	<p>PRA/FCA: Implement SMR pragmatically, including a phase-in period where issues are flagged as warnings, enabling individuals and banks to understand expectations and adapt to the new regime.</p> <p>PRA/FCA: Streamline the process, for example, by reducing time for bank executives to gain approval to perform a senior management function from six months to one month</p> <p>PRA/FCA: Confirm that occasional visits by overseas employees will not require certification to the extent that he/she is not physically present in the United Kingdom for more than 30 days per year provided that he/she is appropriately supervised by a senior manager or a certified person when in the United Kingdom</p>
Industry, Home Office and HMT to take action to develop the UK as a centre for the development of highly skilled banking employees	<p>Industry: Continue development of degree level apprenticeship schemes to develop UK talent</p> <p>BBA: Work with industry on attraction of talent to the UK banking sector</p> <p>Home Office: Home Office to ensure the visa scheme does not constrain growth sectors: e.g. reconsider tier 2 visa limits and introduce scale-up visas</p> <p>HMT: Review tax treatment of those in the UK for training programmes</p>
Devolved nations, city regions and local authorities to promote non-London centres for banking	<p>Devolved nations, city regions and local authorities: Develop proposition for inward investment from international banks</p> <p>BBA: Hold a round table with local council and international banking representatives to discuss location decisions and potential near-shoring opportunities</p>

4.5. Support for growth and innovation

What is working well in the UK today?

The government created the Financial Services Trade and Investment Board (FSTIB) in 2013, tasked with attracting inward investment, promoting external trade and removing barriers for the UK's financial services sector. The FSTIB has identified areas where the government and industry can work in partnership to secure trade and investment opportunities. The government has worked closely with TheCityUK, the City of London and other industry organisations and firms to deliver considerable success in these areas. These efforts are helping financial services firms to increase their market shares overseas and cement the role of the UK as a pre-eminent global financial centre.

In particular, the UK government and regulators have been praised for their support of new and developing growth areas. Support of the FinTech industry was identified by many to be an area of success, with the CBEST Vulnerability Testing Framework cited as a significant joint achievement for the Bank of England and the financial services industry. The UK has been successful in drawing together senior political figures, technical and regulatory teams and coordinating industry efforts. This has led to long-term support for linkages to important economic centres such as China and India and, as a result, has seen the UK become a centre for RMB trading and rupee trading.

Further opportunities

First, while contributors praised government actions, they noted that there is no room for complacency in nurturing an ever-changing and mobile industry. They reiterated the need for continued support from industry and government for a developing UK FinTech ecosystem.

Second, the UK has been a vocal advocate of the Capital Markets Union (CMU) project and views it as a vital element in delivering long term growth and sustainable investment across the EU. It is crucial that industry and government embrace the CMU project as the UK contains the world's leading financial sector. It should lead by example, implementing the relevant building blocks outlined by the European Commission in 2015, which will establish the infrastructure required for a CMU to flourish. For example, the new "simple, transparent and standardised" (STS) securitisation proposals will support a better framework for organisations to carry out securitisation and expand the secondary market across Europe. Additionally, an updated and modern prospectus directive should facilitate quicker and more cost effective access to capital markets for SMEs. The industry should welcome the Government's goal of diversifying funding opportunities for businesses by facilitating their access to non-bank financing sources rather than seeing it as a hindrance to growth.

Third, contributors also note that there are a number of growth areas where they need support to develop the requisite product capabilities and to create the right environment for success.

For example, the UK should seek to capitalise on the private banking and wealth management opportunity arising from the rapid growth of

emerging markets. This new wealth sits largely with first generation entrepreneurs, many of whom require bespoke advice from world class wealth management and private banking experts. In addition to personal wealth management, these individuals and families may have cross border business expansion needs for their businesses, providing a virtuous circle of investment and advisory opportunities. The UK is well positioned to capture these private wealth flows but must not be complacent as other jurisdictions also recognise the opportunity.

Another example is the expected growth in RMB trading. The UK has already taken steps to host RMB business. However, further actions, such as developing a real-time gross settlement (RTGS) system for RMB, can ensure the UK takes a larger share of the future market.

Recommendations

Area	Details
<p>Industry and government to continue to support the growth of FinTech as an increasingly critical part of the banking ecosystem</p>	<p>Industry: Support the development of industry utilities</p> <p>FCA/PRA/Industry: Consider expanding “sandbox” environments to support FinTech development and testing in more critical areas of the market e.g. payments</p> <p>FCA/PRA/HMT: Ongoing review of the regulatory environment to ensure no unnecessary barriers to innovation are created: e.g. regulatory “step changes” which may prevent the expansion of some start-ups</p>
<p>Industry and government to maximise opportunities resulting from Capital Markets Union</p>	<p>Industry: Take a structured and balanced approach towards implementing the legislative and non-legislative proposals of the Capital Markets Union project</p> <p>Government: Work with industry and regulators to ensure that capital markets have the correct and appropriate regulatory environment to grow and flourish safely</p> <p>BBA: Work with industry to ensure CMU momentum is maintained, particularly on the non-legislative elements of the CMU project</p>
<p>Government, regulators and industry to work to ensure UK has requisite product capabilities and policy environment to support growth areas</p>	<p>UK government: Develop real-time gross settlement (RTGS) system for RMB</p> <p>BoE: Introduce a shari’ah compliant placement facility to help Islamic banks in the UK better meet their obligations under the liquidity rules</p> <p>HMT: Ensure that the regulatory burden for the private banking industry remains proportionate</p> <p>HMT: Develop a strategy to ensure that, as a wealth management hub, the UK can capitalise on the opportunity afforded by Emerging Market new wealth creation</p> <p>FCA: Ensure the application of regulation to private banking takes account the nature of the clients and client relationship in this segment</p>

5. Conclusion

The UK has benefited enormously from being home to a large, vibrant international banking sector. We are grateful to the UK government and to the many contributors who have worked to reform and stabilise the industry and, more recently, to preserve the UK's pre-eminence. But as shown in this report, neither this status nor the benefits associated with it can be taken for granted. We believe the recommendations made in this report are essential to ensuring the ongoing competitiveness of the UK as an international banking centre.

Constant work is required to attract international banking business to the UK, to maximise the benefits to the UK economy and to manage the risks to UK taxpayers. We hope this report can help to establish a process, led by government with industry support, by which these endeavours can be advanced. In future, this should form an ongoing process for self-assessment.

We look forward to working with all stakeholders on this important issue.



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