



Perspectives by Ruth Lea

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The City of London is still the top financial centre: for now

The importance of the City of London and financial services

In spite of all the financial turmoil of the last three years, the City of London, and more generally the national financial services sector, still make a very major contribution to the economy.¹ If the City fails to prosper, London's economy and, by extension, the general British economy will be adversely affected. There is much discussion about a "desirable" switch from financial services to manufacturing industry in order to "rebalance the economy". There is, in itself, nothing wrong with this objective. But if it comes about through the neglect of the City's international competitiveness, thus undermining one of Britain's most successful and productive sectors, the whole economy would be damaged.

According to the City of London Corporation, the "City" (all sectors, though mainly financial & professional) contributed 2.8% to the national income in 2010. More generally the financial services represented 19.7% of Greater London's income and 9.6% of GB's income in 2010.² The net overseas earnings of financial services and the insurance industry aggregated were a remarkable £35bn (2.4% of GDP) in 2010. And the financial services sector as a whole made a total tax contribution of £53.4bn in FY2009, representing 11.2% of total government tax receipts. This figure included taxes paid, as well as taxes collected, by the sector.

London as the top international financial centre

The key to London's success as the top international financial centre³ is, of course, its overall international competitiveness and attractiveness. This, in turn, depends on factors such as the favourability of the tax and regulatory regimes, the skill levels of the staff, the physical infrastructure and the "softer" aspects including the attractiveness for key internationally mobile staff of being located in London.

One well-established piece of research for measuring the relative competitiveness and importance of global financial centres is the Global Financial Centres Index (GFCI) report by the Z/Yen Group, which is especially useful because of its comprehensiveness. The Z/Yen Group was initially commissioned by the City of London Corporation to undertake the research and they have reported twice a year since March 2007. The Qatar Financial Centre Authority has taken over as sponsor from the September 2010 report.

The latest report (GFCI9, the 9th report) provided profiles, ratings and rankings for 75 financial centres, drawing on two separate sources of data. These comprised, firstly, a wide range of “instrumental factors” (external indices) and, secondly, responses to an online survey.⁴ The overall index therefore included both objective as well as more subjective assessments of the relative importance and attractiveness of the various financial centres. The compilers grouped the instrumental factors into 5 over-arching “areas of competitiveness”:

- People (e.g. factors such as skilled talent, graduate numbers, depth of talent, visa restrictions, quality of life and personal safety)
- Business environment (e.g. factors such as personal and corporate tax rates, stability and predictability of regulation, operational and political risk, real interest rates)
- Infrastructure (e.g. factors such as office occupancy costs, e-readiness, telecommunications infrastructure and the quality of transport networks and roads)
- Market Access (e.g. factors such as proximity to clients, capital access, the value and volume of share trading, the value of bond trading, credit ratings, the net external position of banks)
- General competitiveness (e.g. overarching factors such as city indices, GDP-related factors and population density).

A recent study undertaken by Ipsos Mori for the City of London Corporation suggested there were three factors that were particularly crucial to business location decisions.⁵ They were the proximity to clients, the business environment (taxation and the stability of regulation, especially at present) and the availability of skilled talent locally.

The Z/Yen Group weighted all the data to give an overall GFCI rating for each financial centre, with a theoretical maximum GFCI rating of 1,000. Table 1 provides the ratings for the top 11 financial centres plus Frankfurt and Paris, as ranked in March 2011, for all of the 9 reports produced by the Z/Yen Group to date. GFCI1 relates to the March 2007 report and GFCI9 to the March 2011 report.

Table 1 Global Financial Centres Index, ratings of the top 11 financial centres (as at March 2011), plus Frankfurt and Paris, the rankings are in brackets.

	GFCI1	GFCI2	GFCI3	GFCI4	GFCI5	GFCI6	GFCI7	GFCI8	GFCI9
London	765 (1)	806 (1)	795 (1)	791 (1)	781 (1)	790 (1)	775 (1=)	772 (1)	775 (1)
New York	760 (2)	787 (2)	786 (2)	774 (2)	768 (2)	774 (2)	775 (1=)	770 (2)	769 (2)
Hong Kong	684 (3)	697 (3)	695 (3)	700 (4)	684 (4)	729 (3)	739 (3)	760 (3)	759 (3)
Singapore	660 (4)	673 (4)	675 (4)	701 (3)	687 (3)	719 (4)	733 (4)	728 (4)	722 (4)
Shanghai	576 (24)	527 (30)	554 (31)	568 (34)	538 (35)	655 (10)	668 (11)	693 (6)	694 (5=)
Tokyo	632 (9)	625 (10)	628 (9)	642 (7)	611 (15)	674 (7)	692 (5)	697 (5)	694 (5=)
Chicago	636 (8)	639 (8)	637 (8)	641 (8)	838 (7)	661 (8)	678 (6)	678 (7)	673 (7)
Zurich	656 (5)	666 (5)	665 (5)	676 (5)	659 (5)	676 (6)	677 (7)	669 (8)	665 (8)
Geneva	628	645	640	645	638	660	671	661	659 (9)

	(10)	(7)	(7)	(6)	(6)	(9)	(8)	(9)	
Sydney	639 (7)	636 (9)	621 (10)	630 (10)	610 (16)	651 (11)	670 (9=)	660 (10)	658 (10=)
Toronto	611 (12)	613 (13)	610 (15)	624 (12)	615 (11)	647 (13)	667 (12)	656 (12)	658 (10=)
Frankfurt	647 (6)	649 (6)	642 (6)	636 (9)	633 (8)	649 (12)	660 (13)	659 (11)	654 (14)
Paris	625 (11)	622 (11)	612 (14)	607 (20)	600 (19)	630 (19)	642 (20)	645 (18)	637 (20)

Sources: Z/Yen, *Global Financial Centres Index* reports, numbers 1-9, March 2007 to March 2011: GFCI1 (March 2007), GFCI2 (September 2007), GFCI3 (March 2008), GFCI4 (September 2008), GFCI5 (March 2009), GFCI6 (September 2009), GFCI7 (March 2010), GFCI8 (September 2010), GFCI9 (March 2011).

The main conclusions that can be drawn from this analysis are:

- The high prestige, long-established centres of London and New York retained their 1st and 2nd places respectively in the March 2011 report. Whereas London has developed an international outlook, by virtue of its geographical and time zone location, New York is seen as being more internally focused, geared towards its huge domestic market. But it is notable how the lead of these two centres over their nearest competitors has narrowed over the past 4 years. The intensifying competition from dynamic “niche, regional and national centres” is apparent. London’s lead, in particular, cannot be guaranteed (this is discussed further below).
- But it is not just that London and New York are being caught up by Asian centres, the overall index for London (and to a lesser extent for New York) has fallen back since 2008. This should be a strong warning to Britain’s policy-makers.
- The centre of gravity is clearly shifting towards Asia, in particular, and the emerging markets, in general. Shanghai has made the most obvious progress, jumping from the 24th rank in March 2007 to 5th equal in March 2011 with Tokyo – an established centre itself helped by the dynamism of Asia. There is no doubt that the dynamic growth of emerging markets, especially China, is changing the *status quo* in international financial services as in other industries.
- Concerning Singapore and Hong Kong, Singapore’s progress has slowed but Hong Kong has powered ahead supported by “being close to China”, though financial business and talent are increasingly based in China itself.
- In contrast to the dynamic Asian centres, the perception of the performance and competitiveness of the main European centres, including London, has stagnated. Zurich and Geneva remain the most successful Continental European centres though they have slipped in the rankings, overtaken by Shanghai, Tokyo and Chicago.
- Frankfurt has slipped from 6th place (March 2007) to 14th (March 2011), whilst Paris has slipped from 11th place (March 2007) to 20th (March 2011). These financial centres, though important, are not serious rivals to London.

These trends are especially visible in charts 1a and 1b, shown below.

Chart 1a: Top global financial centres (ranked as in GCFI9) for the 9 GCFI reports: the top 6

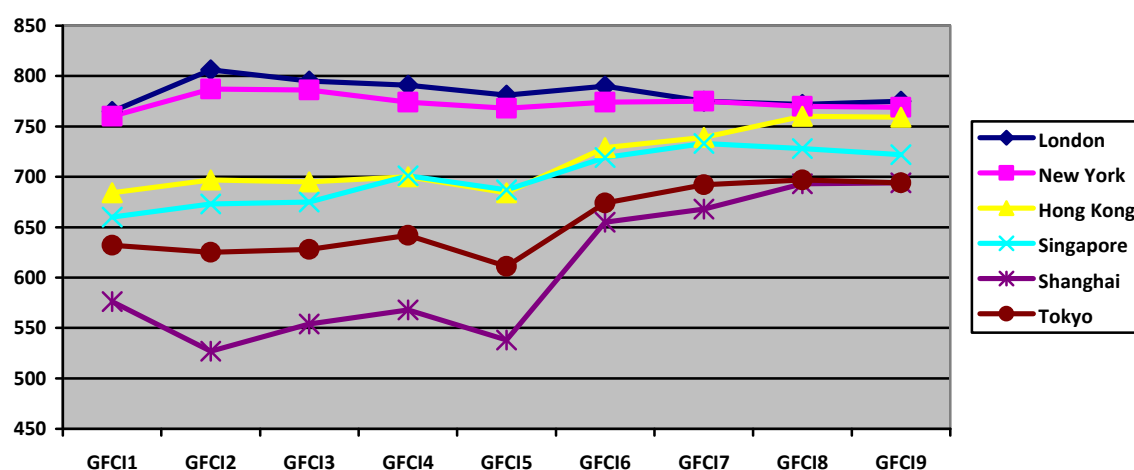
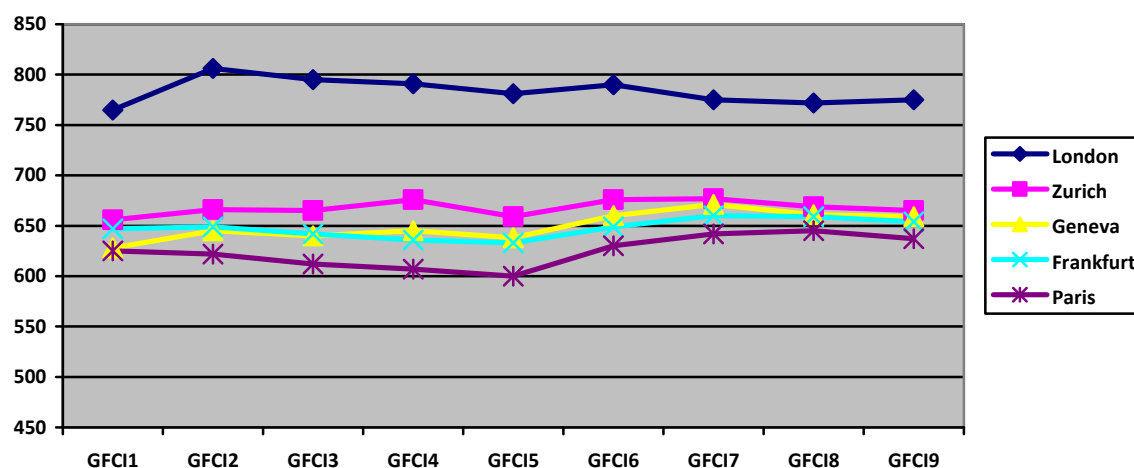


Chart 1b: Top financial centres (ranked as in GCFI9) for the 9 GCFI reports: the top 5 European centres



Sources: Z/Yen, *Global Financial Centres Index* reports, numbers 1-9, March 2007 to March 2011.

London’s lead cannot be guaranteed

As has already indicated, London’s position as the top financial centre is being challenged. There is increasing anecdotal evidence to suggest that London is losing business, or is in severe danger of losing business, because of uncompetitive tax rates and/or increasing regulatory costs.⁶ It should be emphasised that this potential (or actual) loss of business does not necessarily mean that financial businesses would close down their London offices and leave London in their entirety for another centre. Rather they could move particular business lines from their London office, running down business in London, to other financial centres. Or, if expanding, they could expand overseas rather than in London. London would lose the business, nevertheless.

The Ipsos Mori study on business location decisions, already cited, came to some disturbing, if not surprising, conclusions about London’s vulnerabilities.⁷ The research, based on in-depth interviews with leading practitioners, identified key concerns. Whilst “bank bashing”, in the sense of generally hostile views, had little

direct impact on location decisions, these key practitioners emphasised that the unpredictability and politicisation of regulation was a serious concern. They also confirmed that high levels of personal tax acted as a disincentive for mobile professionals, with unpredictability in taxation regimes and high corporate tax acting in much the same way for businesses.

Ipsos Mori concluded that London, along with New York, “...must recognise the need to consolidate their position in the context of shifting global dynamics and new challenges from emerging centres.” They also said “...in order to remain competitive, it is imperative that the financial centres, especially in historic established centres that are not located in high growth areas, articulate a clear vision or strategy for their future.” They also quoted one of their interviewees, who said “...the global financial centres that will continue to succeed are those that are more open to business, whether in terms of compliance, regulation or tax, as well as stable places to do business.”

In another report for the City of London Corporation, Oxford Economics confirmed that “London’s pre-eminence (should) not be taken for granted”.⁸ In addition to concerns over “over-regulation” and high taxes, they quoted other issues: general educational standards (not so good), tight rules on immigration and the transport system, with clear bottlenecks in the UK’s aviation sector with the warning that “London’s advantage as a hub for international business travel might not last for much longer”.

Finally, the Z/Yen Group (GFCI9), bluntly stated that “...London must not rest on its laurels”.⁹ And they quoted a recent report by YouGov which found that of the financial professionals polled:¹⁰

- 34% have considered or are considering leaving London.
- 11% are definitely departing or are likely to do so soon.
- Of these, 86% blamed the cost of living and 69% the quality of life for their decision.
- 25% of senior managers thought it likely that their organisation would move operational teams out of the UK over the next few years.
- 75% of the institutions blamed the overall tax burden as a reason for their possible departure.

Policy challenges to the City of London

All these findings should act as wake-up calls for policy makers and regulatory authorities in Britain if they wish to maintain London as a supremely important financial centre. It is quite understandable that, in the wake of the hugely costly 2008 financial crisis, the regulation of the financial sector is being tightened up and the banks are being reformed. Nevertheless there are implications for the competitiveness of London and indeed the wider economy. We will return to regulatory issues, along with the other competitiveness threats to London’s position, in a future Perspective.¹¹

References

1. The term is used in its general sense to mean London as a financial centre, including Canary Wharf, and not just restricted to the Square Mile.
2. See the City of London's website: www.cityoflondon.gov.uk. Some key facts are listed in the annex (table 1).
3. Ruth Lea, "The City of London is the world's top international financial centre - for now", Arbuthnot Banking Group, 18 August 2008, discussed this further.
4. Z/Yen, *Global Financial Centres Index 9*, March 2011. See also the annex (table 2).
5. Ipsos Mori & the City of London Corporation, *Understanding global financial networks: business and staff location decisions*, May 2011. Ipsos Mori looked in detail at the 4 top financial centres: London, New York, Hong Kong and Singapore.
6. *CityAM*, "Banks shun UK to lower their tax", 2 September 2011 reported that Deloitte and PwC had told Bloomberg that European banks were looking for ways to move trade through low-tax jurisdictions to cut their tax bill.
7. Ipsos Mori & the City of London Corporation, *Understanding global financial networks: business and staff location decisions*, May 2011. See also the annex (table 3).
8. Oxford Economics & the City of London Corporation, *London's competitive place in the UK & global economies*, January 2011.
9. Z/Yen, *Global Financial Centres Index 9*, March 2011.
10. YouGov, "Not with a bang, but with a whimper", December 2010).
11. The final report of the Independent Commission on Banking (ICB) will be released on 12 September. The ICB's Interim Report, recommending ring-fencing UK retail deposits, was released in April 2011.

Annex

Table 1: City of London, key facts
Economic importance
<ul style="list-style-type: none"> • National income: the City of London's contribution (all sectors, mainly financial & professional) to the national income is estimated at 2.8% of the total in 2010. Total financial services represent 19.7% of total national income (or gross value added) in the whole of London (2010). The financial services sector accounts for 9.6% of the total national income of GB (2010). Source: ONS and Oxford Economics (City of London website)
<ul style="list-style-type: none"> • Employment: 315,200 were employed in financial services in Greater London (out of a GB total of 1,034,600), this was nearly 10% lower than in 2008: ONS Business Register & Employment Survey, December 2010 (City of London website)
<ul style="list-style-type: none"> • Tax revenue: the financial services sector as a whole made a total tax contribution of £53.4bn in FY2009, representing 11.2% of total government tax receipts. This figure includes taxes paid, as well as taxes collected, by the sector. For London as a whole, the net contribution to the exchequer is estimated at £1.4bn in FY2009 – below that achieved in earlier years as a result of the recession. Forecasts suggest that over the medium term London's net contribution should return to the levels seen prior to the financial crisis. Sources: PwC and City of London, "Total Tax Contribution of UK Financial Services", December 2010 and Oxford Economics and City of London, "London's Competitive Place in the UK & Global Economies", January 2011.
<ul style="list-style-type: none"> • Overseas trade: £35.7bn trade surplus generated by the UK financial services sector (TheCityUK) • An alternative estimate for financial services is provided by the ONS which shows a surplus of £29.6bn in 2010 and £5.5bn for insurance (ONS, "Balance of Payments, 2011Q1, 28 June 2011.")
Trading significance
<ul style="list-style-type: none"> • Forex trading: \$1.9tn foreign exchange turnover each day in London, the top forex market. 37% global share, including foreign exchange derivatives (Bank for International Settlements, April 2010). • London's competitors were the US (\$904bn, 18% share); Japan (\$312bn, 6% share); Singapore (\$266bn, 5% share); Switzerland (\$262bn, 5% share).
<ul style="list-style-type: none"> • 19% of the global foreign equity market traded in London (TheCityUK)
<ul style="list-style-type: none"> • 70% of global Eurobond turnover traded in London, London is the most active centre in the world when it comes to trading in Eurobonds (TheCityUK)
<ul style="list-style-type: none"> • £200bn net premium insurance income in the UK (TheCityUK)
<ul style="list-style-type: none"> • 120.3m metal contracts a year traded in London, with average daily turnover of \$46bn (London Metal Exchange)
<ul style="list-style-type: none"> • 1.293bn contracts a year traded on London's International Financial Futures Exchange (NYSE Liffe)
<ul style="list-style-type: none"> • £4.1tn in funds under management in the UK (Investment Management Association)
<ul style="list-style-type: none"> • 46% share of 'over the counter' derivatives market, ahead of the US, France, Japan and Germany (Bank for International Settlements, April 2011)
<ul style="list-style-type: none"> • 95% share of the EU emissions trading scheme (TheCityUK)
<ul style="list-style-type: none"> • 604 foreign companies listed on the London Stock Exchange, including the AIM market (London Stock Exchange)
<ul style="list-style-type: none"> • The City is the largest international banking centre in the world, 18% of cross-border lending arranged in the UK - more than any other country (TheCityUK) • 241 foreign banks in London (TheCityUK)
<ul style="list-style-type: none"> • 19% share of global hedge fund assets in the UK (TheCityUK)
<ul style="list-style-type: none"> • Leading western centre for Islamic finance, with 22 banks supplying Islamic financial services, five fully Sharia compliant (TheCityUK)
<ul style="list-style-type: none"> • 21% share in 2009 of global market in marine insurance, making the UK the world leader

(TheCityUK)
Main source: www.cityoflondon.gov.uk/keyfacts

Table 2a: GFCI9, key areas of competitiveness, top 11 financial centres

Rank		People	Business environment	Market access	Infrastructure	General competitiveness
1	London	London	London	London	London	London
2	New York	New York	New York	New York	New York	New York
3	Hong Kong	Hong Kong	Hong Kong	Hong Kong	Hong Kong	Hong Kong
4	Singapore	Singapore	Singapore	Singapore	Singapore	Singapore
5	Shanghai	Shanghai	Chicago	Shanghai	Tokyo	Tokyo
6	Tokyo	Tokyo	Tokyo	Tokyo	Chicago	Shanghai
7	Chicago	Chicago	Shanghai	Zurich	Zurich	Chicago
8	Zurich	Zurich	Zurich	Chicago	Shanghai	Sydney
9	Geneva	Geneva	Toronto	Toronto	Geneva	Zurich
10=	Sydney	Sydney	Geneva	Geneva	Toronto	Geneva
10=	Toronto	Toronto	Sydney	Sydney	Sydney	Toronto

Table 2b: GFCI9, industry sector sub-indices, top 11 financial centres

Rank		Asset Management	Banking	Government & regulatory	Insurance	Professional services	Wealth management, Private banking
1	London	London	New York	London	Hong Kong	London	London
2	New York	New York	Hong Kong	New York	Shanghai	New York	Geneva
3	Hong Kong	Hong Kong	London	Singapore	New York	Hong Kong	New York
4	Singapore	Singapore	Singapore	Hong Kong	London	Singapore	Hong Kong
5	Shanghai	Tokyo	Tokyo	Tokyo	Singapore	Chicago	Toronto
6	Tokyo	Chicago	Shanghai	Chicago	Tokyo	Tokyo	Singapore
7	Chicago	Shanghai	Zurich	Geneva	Chicago	Geneva	Zurich
8	Zurich	Toronto	Sydney	Zurich	Toronto	Toronto	Chicago
9	Geneva	Sydney	Chicago	Toronto	Sydney	Zurich	Sydney
10=	Sydney	Zurich	Toronto	Sydney	Zurich	Sydney	Tokyo
10=	Toronto	Geneva	Geneva	Shanghai	Geneva	Shanghai	Shanghai

Source: Z/Yen, *Global Financial Centres Index 9*, March 2011. The sub-indices by areas of competitiveness were compiled using the relevant instrumental factors. The industry sub-indices were compiled using only the questionnaire responses from respondents working in the relevant industry sectors.

Table 3: Ipsos Mori research, perceptions of London and New York

	General competitiveness	Business environment	Market access	People	Infrastructure
London					
Flux factors		“Banker bashing” (-)			
		Regulatory environment (-)		Strict immigration rules (-)	
Established factors	High cost of living (-)	High corporate & personal tax rates (-)	Proximity to large clients (+)	Technical expertise (+)	Transport infrastructure problems (-)
	Multicultural-welcoming (+)	Global outlook (+)		Deep talent pool (+)	Good international transport links (+)
	Strong reputation-prestige (+)	Strong rule of law (+)	Global access to markets (+)		
	Rich cultural offer (+)				
Fixed factors	Time zone (+)				
New York					
Flux factors				Innovation (+)	
Established factors	High cost of living (-)	Protectionist regulation (-)		Technical expertise (+)	Ageing transport infrastructure (-)
	Rich cultural offer (+)	Domestic focus (-)	Proximity to large clients (+)	Deep talent pool (+)	
	Strong reputation-prestige (+)		Domestic capital market (+)		
Fixed factors					

Source: Ipsos Mori & the City of London Corporation, *Understanding global financial networks: business and staff location decisions*, May 2011.

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