TheCityUK

Key facts

about UK-based financial and related professional services 2023

About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK, across Europe and internationally that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes 12% of the UK's total economic output and employs nearly 2.5 million people, with two thirds of these jobs outside London. It is the UK's largest net exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined. It is also the largest taxpayer, and makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and protect and manage risk.

Contents

Key facts about UK-based financial and related professional services 2023

Nearly **2.5 million** people in the UK work in financial and related professional services

This accounts for **7.6%** of total UK employment or 1 in 13 people in employment, with two thirds of this employment based outside of London

Financial services has more than
1.1m people in employment:

- banking – **362,000**
- insurance – **358,000**
- fund management – **80,000**
- other financial services – **311,000**

Related professional services has over
1.3 million people in employment:

- management consultancy - **507,000**
- accountancy - **459,000**
- legal services - **375,000**

Financial and related professional services contributed
£275bn
to UK GVA* in 2022

*Gross value added

The outstanding amount of loans made available by major banks to UK businesses was **£538.7bn** as of November 2022

37% of this was lent to SMEs

UK fund managers helped to protect and grow around **£11.6trn** in financial assets in 2021, up **5%** from 2020

UK-based financial and related professional services generated a trade surplus of **£82.3bn** in 2021

In 2021, UK private equity funds invested **£34.8bn** in more than **1,800** UK companies

LawTech businesses in the UK had received around **£674m** in investment as of December 2020

Enhancing customer experience through digital financial services

65% of the population used online banking and **57%** used mobile banking in 2021

In 2021, the number of payments via the Faster Payments Services (FPS) reached almost **3.6bn**

- **39%** of all business-to-business payments were done using FPS or other remote banking system

The number of annual transactions made with contactless payment cards was **13.1bn** in 2021, **up 36%** from the previous year

Cash payments decreased by **2%** in 2021 from the previous year

Foreword

For yet another year, the wider social and economic context within which the financial and related professional services industry operates is fraught. After weathering the worst of the Covid-19 pandemic and then the initial economic fall-out of the war in Ukraine, the UK now faces a gloomy macroeconomic outlook, with the latest forecasts from the Bank of England (in its February 2023 Monetary Policy Report) projecting seven consecutive quarters of negative growth in 2023 and 2024, with only a subdued return to growth in the last quarter of 2024.

Against this backdrop, the UK-based financial and related professional services industry continues to support individuals and businesses in their day-to-day activities through familiar services like saving, mortgage provision, and business lending. In some ways, such support is more important than ever, and in this edition of `Key facts about UK-based financial and related professional services' we have included a special section highlighting some of the ways in which the industry is supporting households through the current inflationary surge which is straining real incomes and thus household finances.

The latest available data also shows that financial and related professional services employment increased substantially in 2021, rising to almost 2.5 million compared with 2.2 million in 2020. In that same year, when overall foreign direct investment flows into the UK were negative £52bn (meaning net disinvestment from the country), financial services was one of the few sectors to register positive inward investment flows.

This latest economic research report sets out these and other data points highlighting the strong contribution that the financial and related professional services industry continues to make to the domestic economy. Just as it did during the pandemic-induced economic shock of 2020, the industry – through its role as an enabler of growth in other sectors – will support the economy through these difficult times and hopefully help to mitigate the worst of the impending slowdown.

Anjalika Bardalai

Chief Economist and Head of Research, TheCityUK

Executive summary

- The UK-based financial and related professional services industry supports individuals and businesses in their day-to-day activities through familiar services like saving, mortgage provision, and business lending. This report uses the latest available annual data to highlight the importance of the sector for society, and its continued development.
- In 2021, nearly 2.5 million people worked across the UK in financial and related professional services, accounting for 7.6% of total UK employment. Two thirds of this employment was based outside London, with Birmingham, Edinburgh and Manchester being some of the leading industry employment centres besides London. Industry employment was up from 2.2 million people in 2020.
- Financial and related professional services contributed £275bn to UK gross value added (GVA) in 2022. Compared with 2021, the industry's GVA rose by 6.8%. Financial services productivity also increased in 2021, rising by 14% year on year.
- UK financial services contributed £75.6bn in tax revenue in 2019/20. This accounted for 10.1% of total UK tax receipts and was equivalent to 3.4% of UK GDP. Moreover, the total tax contribution of legal and accounting activities in 2020 was £20.5bn, representing 2.8% of total government receipts in 2020.
- Over the past five years (2017-21), cumulative inflows of financial services foreign direct investment (FDI) totalled £60.8bn, equivalent to 36.6% of overall FDI, constituting the sector that attracted the most FDI.
- The industry supports customers with services such as mortgage lending, pension saving, offering life assurance policies and other investment services. In addition, it supports businesses in myriad ways, ranging from providing current accounts for day-to-day expenditures to insurance cover for assets to growth capital for investment.
- The outstanding amount of loans made available by major banks to UK businesses totalled £538.7bn as of November 2022. Of this total, 37% was lent to SMEs.
- In 2021, UK private equity funds invested £34.8bn in more than 1,800 UK companies. Regionally, London accounted for 35.5% of total amount of capital invested, followed by Yorkshire and the Humber (16.6%), the North West (11.8%), and the South East (11.3%).
- Small caps from across the UK enjoy access to one of the largest share markets for small companies in Europe, with 816 companies quoted on the AIM by the end of 2022. AIM companies raised £2.4bn through new and further issues of shares.
- The UK has high quality professional services related to financial services (accounting, management consulting and legal services). These three sectors contributed £33.5bn, £14.5bn and £34.0bn respectively to UK output in 2022.
- The financial and related professional services industry is also involved in financial education programmes, social initiatives and alternative finance solutions for businesses and clients. Several companies have implemented programmes to support consumers and employees with the current high cost of living.

Supporting employment and growth across the UK

A leading employer

According to the latest data available from the Office for National Statistics (ONS) and the Northern Ireland Statistics and Research Agency, nearly 2.5 million people worked across the UK in financial and related professional services in 2021–the latter comprising legal services, accounting services and management consultancy–accounting for 7.6% of total UK employment (meaning that around one in every 13 people in employment is in the industry). In 2020, the employment figure was 2.2 million people.

- Two thirds of this employment is based outside London. There are over 50,000 people in employment in Birmingham and Manchester. Edinburgh has around 48,000 people in employment, followed by Bristol, Glasgow and Leeds, each with between 37,000 and 40,000 people. Belfast, Cardiff, Liverpool and Sheffield, each have between 20,000 and 24,000 people in employment. Other centres with over 14,000 people in employment include Salford, Milton Keynes, Warrington and Newcastle.
- Twenty-three towns and cities in the UK each have over 10,000 people in employment in the industry.
- Financial services have more than 1.1 million people in employment, the majority of whom are in banking (362,000) and insurance (358,000). Fund management provides employment for a further 80,000 and other financial services 311,000.
- Related professional services have over 1.3 million people in employment divided among management consultancy (507,000), accountancy (459,000) and legal services (375,000); for more information see Figure 1.[1,2]

1 TheCityUK calculations based on Nomis, 'Business register and employment survey: open access', (9 November 2022), available at: https://www.nomisweb.co.uk/query/construct/summary.asp?mode=construct&version=0&dataset=189

2 TheCityUK calculations based on data from NISRA, 'Business Register and Employment Survey', (30 June 2022), available at: https://www.nisra.gov.uk/statistics/annual-employee-jobs-surveys/business-register-and-employment-survey

Figure 1: Employment by sector in UK financial and related professional services, % of total industry employment, 2021

Source: TheCityUK calculations based on data from Nomis and the Northern Ireland Business Register and Employment Survey

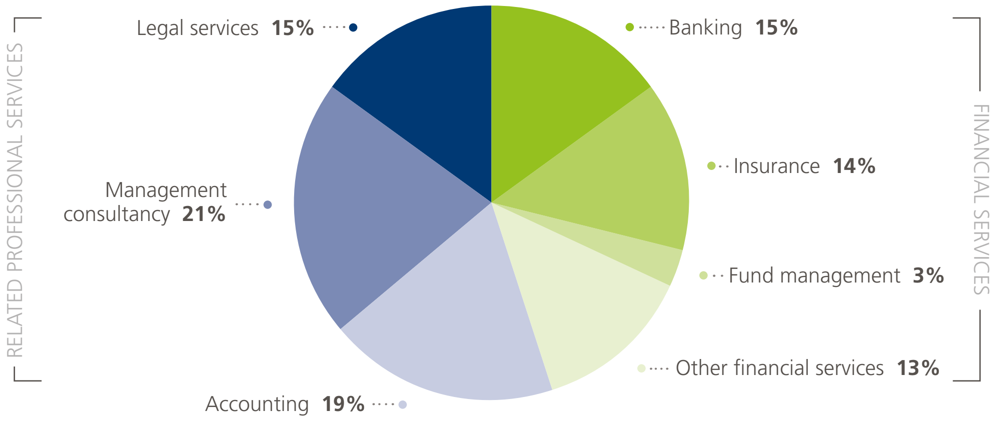


Figure 2: Employment in UK-based financial and related professional services, 2021

Source: TheCityUK calculations based on data from Nomis and the Northern Ireland Business Register and Employment Survey

Total Employment
2,452,000

Scotland
136,000

Northern Ireland*
38,000

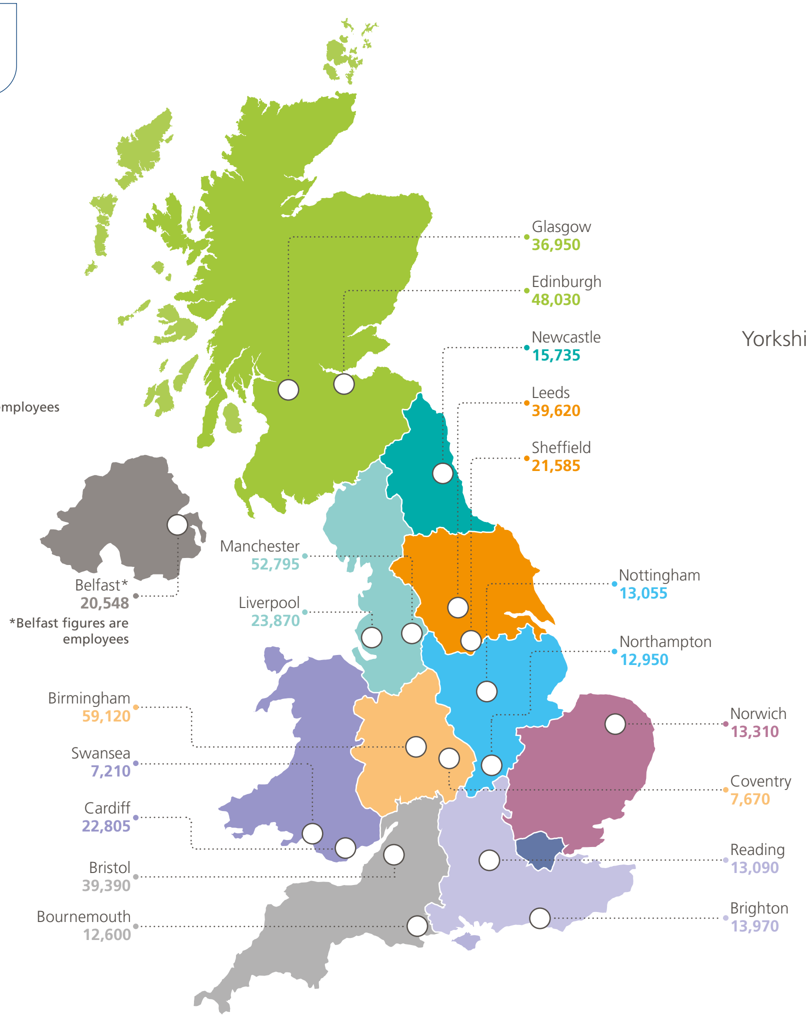
*Northern Ireland figures are employees

North West
289,000

Wales
64,000

West Midlands
145,000

South West
153,000



North East
56,000

Yorkshire and the Humber
149,000

East Midlands
112,000

East of England
156,000

South East
286,000

London
868,000

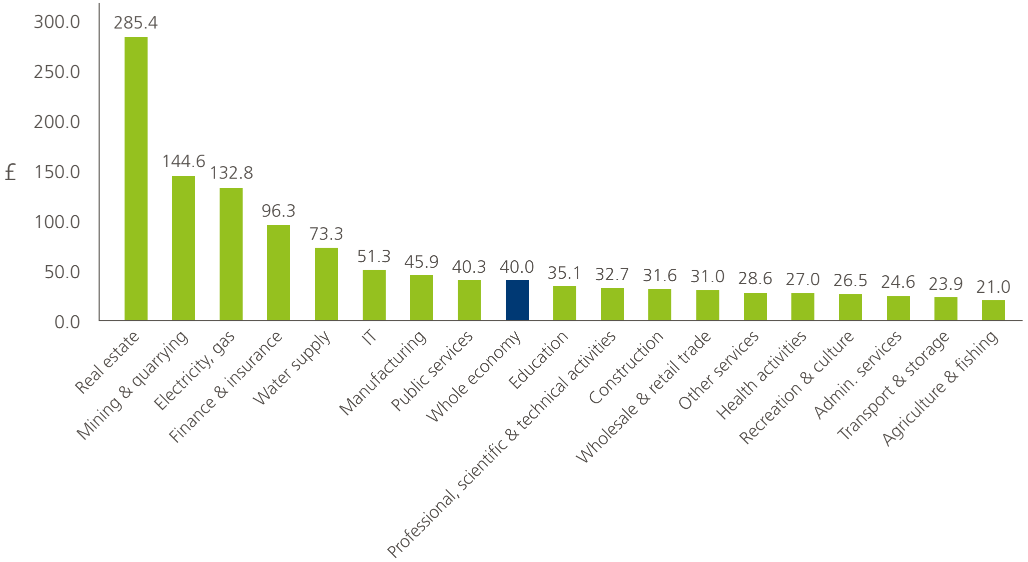
A significant contributor to UK economic output

According to the latest available data from the ONS, across their domestic and international activities, financial and related professional services contributed £275bn to UK gross value added (GVA) in 2022, representing around £12 of every £100 of economic output. Financial and related professional services is among the UK's largest industries as measured by GVA.[3] Compared with 2021, financial and related professional services GVA rose by 6.8%.

Financial services sector productivity is almost 2.5 times as high as whole-economy productivity in terms of output per hour. Output per hour for the financial services sector was £96.3 in 2021, compared with whole-economy productivity of £40. On this metric, the sector ranks fourth, behind Real Estate (£285.4), Mining and Quarrying (£144.6), and Electricity and Gas (£132.8); and ahead of Water Supply (£73.3) and IT (£51.3); for more information see Figure 3.[4] Financial services productivity rose by 14% year on year in 2021.

Figure 3: UK output per hour by sector, £, 2021

Source: Office for National Statistics



3 TheCityUK estimates based on the Office for National Statistics, 'GDP output approach - low-level aggregates', (10 February 2023), available at: https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates

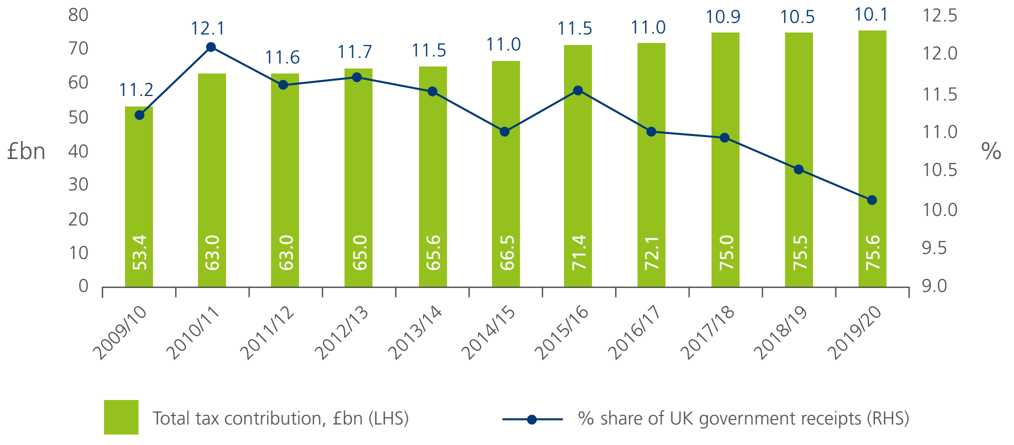
4 Office for National Statistics, 'Output per hour worked, UK', (7 October 2022), available at: https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/outputperhourworkeduk

A large generator of tax receipts

UK-based financial services are a vital source of tax receipts, contributing £75.6bn in tax revenue in 2019/20 (latest available data). This accounted for 10.1% of total UK tax receipts (Figure 4) and was equivalent to 3.4% of UK GDP. A major source of tax receipts was the £34.5bn from employment tax.[5] Moreover, the total tax contribution of legal and accounting activities in 2020 was £20.5bn, representing 2.8% of total government receipts in 2020.[6]

Figure 4: Tax contribution of UK financial services, percentage share and £bn, 2009-20

Source: City of London Corporation and PwC



5 City of London Corporation and PwC, 'The total tax contribution of UK financial services in 2020: 13th Edition', (9 February 2021), p.8 & 10, available at: https://www.cityoflondon.gov.uk/assets/Business/total-tax-contribution-2020.pdf

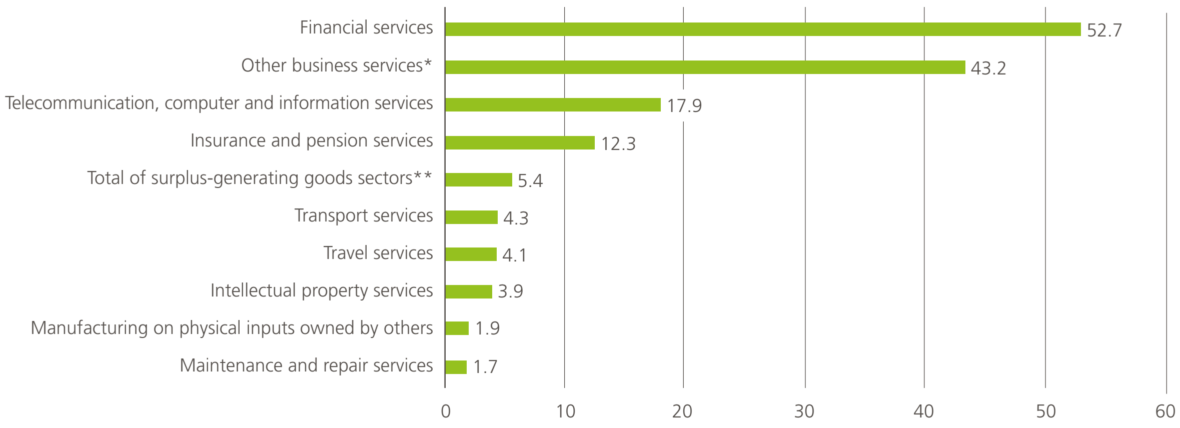
6 TheCityUK, 'Total Tax Contribution study', (18 October 2021), p.6, available at: https://www.thecityuk.com/media/ncdlqdbp/total-tax-contribution-study-for-uk-legal-and-accounting-activities.pdf

Generating a trade surplus

UK-based financial and related professional services firms are the face of British businesses across the globe, contributing 'soft power' as well as economic and commercial success. UK-based financial and related professional services generated a trade surplus which we estimate to have been £82.3bn in 2021, based on data from the Office for National Statistics.[7] This was equivalent to 3.6% of GDP.[8] The industry's trade surplus is more than the combined surplus of all other industries in the UK that register trade surpluses (Figure 5).[9] This helps to partly offset the UK's trade-in-goods deficit of £153.8bn.[10]

Figure 5: Sectors generating a trade surplus, £bn, 2021

Source: Office for National Statistics



*Research and development, Professional and management consulting services, and Technical, trade-related and other business services

**Crude oil, Finish manufactured goods - ships and aircraft

Note: Construction, Personal, cultural and recreational services and Government services ran a trade deficit in 2021

7 TheCityUK estimates based on the Office for National Statistics, '03 Trade in services, the Pink Book', (31 October 2022), available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/3tradeinservicesthepinkbook2016

8 TheCityUK calculations based on the Office for National Statistics, 'Gross Domestic Product at market prices: current price: seasonally adjusted £m', (22 December 2022), available at: https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ybha/qna

9 TheCityUK calculations based on the Office for National Statistics, '03 Trade in services, the Pink Book', (31 October 2022), available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/3tradeinservicesthepinkbook2016

10 Office for National Statistics, '02 Trade in goods, the Pink Book', (31 October 2022), available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/2tradeingoodsthepinkbook2016

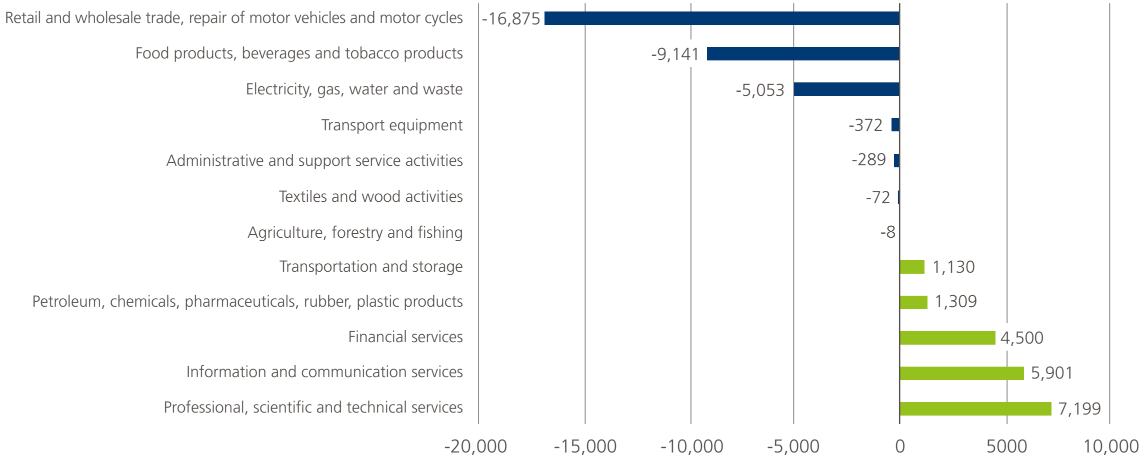
Attracting foreign direct investment to the UK

The UK remains a key destination for financial and related professional services investment. The standard measure of such investment, inward foreign direct investment (FDI), is a volatile indicator that can show significant changes from year to year (for example, in any given year the figure may be distorted by a particularly large deal(s).

In 2021, the latest year for which data are available, the financial services sector attracted £4.5bn in FDI inflows. In a year in which the UK registered negative FDI inflows overall (in other words, net disinvestment in the economy), financial services and professional, scientific and technical services—the wider category that includes legal, accounting and management consulting services—were among the sectors that continued to attract net inflows; see Figure 6 for detail. Over the past five years (2017-2021), cumulative inflows of financial services FDI totalled £60.8bn, equivalent to 36.6% of overall FDI, constituting the sector that most attracted FDI.[11]

Figure 6: Inward FDI flow by top industrial activity, 2021, £m

Source: Office for National Statistics



Note: a negative sign indicates a net disinvestment in the UK which means that direct investment interests were sold, and/or reinvested earnings were negative

11 TheCityUK calculations based on Office for National Statistics, 'Foreign direct investment flows into the United Kingdom by area, main country and industrial activity of UK affiliates, 2018 to 2021', (23 January 2023), available at: https://www.ons.gov.uk/businessindustryandtrade/business/businessinnovation/datasets/foreigndirectinvestmentinvolvingukcompanies2013inwardtables

Making a positive difference to people's lives

Enhancing consumer welfare and convenience by embracing digital banking services

In recent years, financial services firms have made multi-billion pound investments to enable their customers to take advantage of the shift towards digital banking and new payment systems.

- The use of contactless payments has increased rapidly in recent years, and even more so since the Covid-19 pandemic started. According to data from UK Finance, the number of annual transactions made with contactless payment cards reached 13.1bn in 2021, up 36% from a year earlier. Contactless payments were particularly important during the height of the pandemic as they discouraged people from using cash and promoted touch-free payment methods as a public health measure; in October 2021, HM Treasury and the Financial Conduct Authority increased the limit for contactless payments from £45 to £100. They remain extremely popular, and contactless card payment volumes are expected to reach 19.4bn payments in 2031.[12]
- At the end of 2021, there were 142m contactless cards in circulation. Ninety-one percent of debit cards had this system, as well as eighty-nine percent of credit cards.[13]
- In contrast, cash payments decreased by 2% from 2020 to 2021, accounting for 15% of payments in 2021 but remaining the second-most-used payment method.[14] The number of cheque payments declined by 84% over the last decade from 923m in 2011 to 150m in 2021.[15]
- Eighty-six percent of the population used at least one form of remote banking during 2021; 65% used online banking and 57%used mobile banking. In the last year, online banking penetration has fallen slightly as mobile banking penetration has risen.[16]
- During 2021, the number of payments via the Faster Payments Services (FPS) reached almost 3.6bn. Thirty-nine percent of all payments made by businesses were done using FPS or other remote banking system.[17]
- Traditional banks have embraced online and mobile banking, but globally, six top challenger banks are each valued more than $1bn - three of which (OakNorth, Monzo Bank and Revolut) are based in the UK.

For more information about the methods of payment in the UK in 2021, see Figure 7.[18]

12 UK Finance, 'UK payment markets summary 2022', (August 2022), p.3 & 9, available at: https://www.ukfinance.org.uk/system/files/2022-08/UKF%20Payment%20Markets%20Summary%202022.pdf

13 Ibid.

14 UK Finance, 'UK payment markets summary 2022', (August 2022), p.9, available at: https://www.ukfinance.org.uk/system/files/2022-08/UKF%20Payment%20Markets%20Summary%202022.pdf

15 UK Finance, 'UK payment markets summary 2022', (August 2022), p.6, available at: https://www.ukfinance.org.uk/system/files/2022-08/UKF%20Payment%20Markets%20Summary%202022.pdf

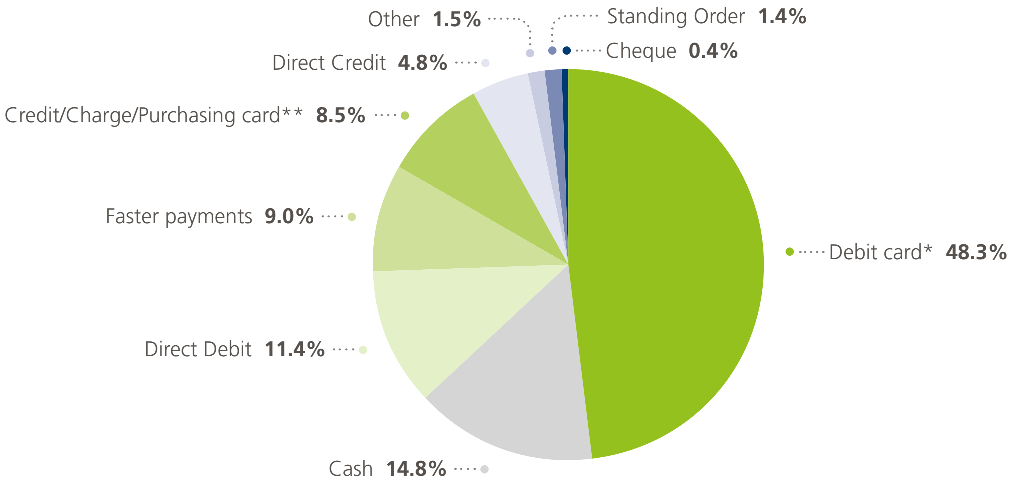
16 UK Finance, 'UK payment markets summary 2022', (August 2022), p.9, available at: https://www.ukfinance.org.uk/system/files/2022-08/UKF%20Payment%20Markets%20Summary%202022.pdf

17 UK Finance, 'UK payment markets summary 2022', (August 2022), p.5, available at: https://www.ukfinance.org.uk/system/files/2022-08/UKF%20Payment%20Markets%20Summary%202022.pdf

18 UK Finance, 'UK payment markets summary 2022', (August 2022), p.8, available at: https://www.ukfinance.org.uk/system/files/2022-08/UKF%20Payment%20Markets%20Summary%202022.pdf

Figure 7: Methods of payments in the UK, % share, 2021

Source: UK Finance



*Contactless payments made by debit card were 28% of the total payments.

**Contactless payments made by credit card were 4% of the total payments.

Providing mortgage finance

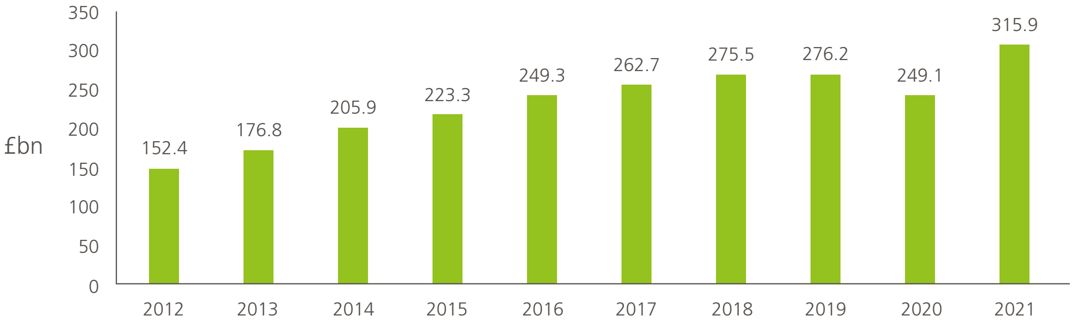
In 2021-22, 30% of households in England enjoyed the security of home ownership thanks to mortgages.[19] The value of gross mortgage lending in the UK grew steadily over the last decade, except in 2020 when it decreased by 9.8% due to the Covid-19 pandemic, reaching £315.9bn in 2021 (Figure 8). According to the latest available data, the value of gross mortgage until Q3-2022 was £240.9bn.[20]

19 Ministry of Housing, Communities and Local Government, 'English housing survey 2021 to 2022: headline report', (15 December 2022), available at: https://www.gov.uk/government/statistics/english-housing-survey-2021-to-2022-headline-report/english-housing-survey-2021-to-2022-headline-report

20 Financial Conduct Authority and Bank of England, 'Mortgage lending statistics – December 2022', (13 December 2022), available at: https://www.fca.org.uk/data/mortgage-lending-statistics

Figure 8: UK gross mortgage lending, £bn, 2012-2021

Source: FCA and Bank of England



Safeguarding savings and managing investments for the future

UK fund managers helped to protect and grow around £11.6trn in financial assets in 2021, up 5% from 2020, representing savings through pensions, life assurance policies and other investments.[21]

The UK has one of the largest pension industries worldwide, with total investments of £4.2trn at the end of 2021. Pension providers have a key role in delivering cost effective and accessible pensions in the future, which for most people in the private sector are defined contribution (DC). Under DC schemes, pension payments are derived from the total value of contributions to pension pots made by individuals and their employers, with the value of the fund determined by the performance of investments.[22]

Pension participation has been increased, partly because of automatic enrolment that was introduced in 2012.[23] According to the latest available personal pension statistics published by HM Revenue & Customs in November 2022, contributions to personal pension pots totalled£13.7bn in 2020/21, up 11% from 2019/20. Over the same period there was an increase in the annual average contributions per member from £1,100 to £1,700.[24] Personal pensions help

21 The Investment Association, 'Investment management in the UK 2021-2022: The Investment Association annual survey', (September 2022), p.19, available at: https://www.theia.org/sites/default/files/2022-09/Investment%20Management%20Survey%202021-22%20full%20report.pdf

22 The Investment Association, 'Investment management in the UK 2021-2022: The Investment Association annual survey', (September 2022), p.53, available at: https://www.theia.org/sites/default/files/2022-09/Investment%20Management%20Survey%202021-22%20full%20report.pdf

23 The Investment Association, 'Investment management in the UK 2021-2022: The Investment Association annual survey', (September 2022), p.54, available at: https://www.theia.org/sites/default/files/2022-09/Investment%20Management%20Survey%202021-22%20full%20report.pdf

24 These figures include individual contributions made to personal pensions, contributions made by members who are self-employed, and contributions made to retirement annuity contracts.

savers to achieve their aspirations for financially independent retirement years. Personal pensions supplement state and occupational pension schemes.[25]

Annuities have often been used to provide a guaranteed income in retirement. However, the pension landscape changed dramatically following changes introduced in the 2014 Budget. These changes meant that those who could demonstrate that they had a guaranteed income of at least £20,000 per year did not have to annuitise. Due to the policy change, which took effect in 2015, annuity sales had been diminishing considerably in recent years. For example, in 2020/21, the number of annuity sales decreased by 13.1% to 60,383 from 69,500 in 2019/20.[26] However, sales rose by 13% in 2021/22 to 68,514[27], an increase which was likely due in part to the fact that inflation-linked annuity rates in most cases have made the purchase of an annuity more profitable in the future.

According to the latest available data published by the Association of British Insurers, the UK insurance industry paid out £98.2bn in long-term insurance benefits, related to pensions and retirement income, and protection and long-term care, in 2020.[28] For the general insurance sector, motor and property insurance processed around £47.2m per day in claims in 2020; travel insurers paid out and average of £404,000 in claims daily; and protection insurers paid out £17.1m per day.[29]

Broadening access to related professional services

Like the financial services sector, related professional services have also made increasing use of technology in recent years. Legal services, for example, is making greater use of artificial intelligence, which has the potential to lower costs over the medium to long term.

Additionally, the internet facilitates the provision of very basic legal services at low cost, bringing such services within the reach of individuals who may not otherwise be able to afford them.

LawTech, the sector that uses new technologies to provide legal services, is now worth at least $15.9bn globally.[30] LawTech businesses in the UK had received around £674m in investment and employed more than 7,000 people as of December 2020. Indeed, the average annual growth rate of investment in LawTech from 2017 to 2020 was 101%, which was greater than the growth showed in other similar sectors: FinTech (20%), ClimaTech (5%) and HealthTech (47%).[31]

The UK has become a global hub for LawTech. It benefits from a highly developed legal market, a technology talent pipeline, a competitive tax system, and a liberal regulatory regime. Whereas most jurisdictions continue to bar non-lawyers from involvement in legal services firms, the UK's Legal Services Act 2007 permitted Alternative Business Structures (ABS), business models that allow investment, ownership and management by non-lawyers. A 2021 study published by Thomson Reuters found that around 79% of law firms are using an Alternative Legal Service Provider (ALSP) for at least one type of service, typically low-risk or standardised high- volume tasks such as document review and electronic discovery services.[32]

25 HM Revenue & Customs, 'Commentary for Personal and Stakeholder Pension Statistics: September 2022', (30 November 2022), p.1, available at: https://www.gov.uk/government/statistics/personal-and-stakeholder-pensions-statistics/private-pension-statistics-commentary-september-2022

26 Financial Conduct Authority, 'Retirement income market data 2020/21', (9 December 2021), available at: https://www.fca.org.uk/data/retirement-income-market-data-2020-21

27 Financial Conduct Authority, 'Retirement income market data 2020/21', (6 October 202), available at: https://www.fca.org.uk/data/retirement-income-market-data-2021-22#:~:text=Uncrystallised%20funds%20pension%20lump%20sums,68%2C514%20in%202021%2F22).

28 The Association of British Insurers, 2023

29 The Association of British Insurance, 'UK insurance & long-term savings: Key facts summary 2022', (2022), available at: https://portfolio.cpl.co.uk/ABI-KeyFacts/2022/cover/

30 TheCityUK, "Legal excellence, internationally renowned 2022', (7 December 2022), p.17, available at: https://www.thecityuk.com/media/5url4ni1/legal-excellence-internationally-renowned-uk-legal-services-2022.pdf

31 Lawtech UK, 'The LawtechUK Report 2021', (2021), p.17, available at: https://technation.io/wp-content/uploads/2021/07/LawtechUK-Report-2021-Final.pdf

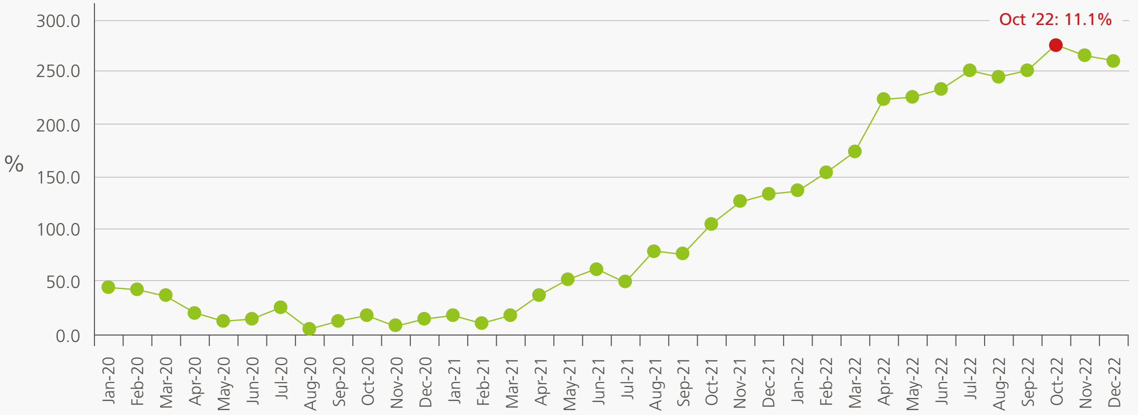
32 Thomson Reuters, 'Alternative legal services providers 2021', (July 2021), p.2, available at: https://www.thomsonreuters.com/en-us/posts/wp-content/uploads/sites/20/2021/07/ALSP_2021-Report_FINAL-1.pdf

Supporting consumers during the current cost-of-living crisis

Consumer price inflation has been rising in many countries, including the UK, since 2021—a result of pandemic-related supply shortages and the subsequent increase in demand for products and materials as the global economy recovered from the collapse of demand in 2020. Moreover, in 2022 the conflict in Ukraine began, further fuelling commodity- and energy-price rises around the world.[33] In October 2022, the UK's annual inflation rate reached 11.1%, a 41-year high,[34] before falling to 9.2% in December 2022;[35] for more information, see Figure 9.[36]

Figure 9: Annual change in consumer prices, 2020-22

Source: Office for National Statistics



High inflation affects the affordability of goods and services for households (and businesses). Indeed, according to a ONS survey, 92% of adults reported the cost of living as an important issue facing the UK today.[37] The government has created some schemes to help the population deal with energy bills and with the high cost of living, and the Bank of England has been raising interest rates in an attempt to control inflation (although this raises debt-service costs for households and businesses).[38] The financial and related professional services industry has also taken an active approach to assisting customers. According to UK Finance, in the 12 months to January 2023 lenders have proactively contacted customers who are worried about their finances a combined total of 16.5 million times to offer support (via post, telephone, email, SMS, websites and app messaging). In the same period, 2 million borrowers have been provided with financial difficulty assistance.

Additionally, examples of some specific schemes introduced by financial services firms include the following:

- **Financial advice:**[39]
  - o HSBC has created a dedicated website giving extensive advice on the cost-of-living crisis.
  - o NatWest is encouraging customers who are worried about their finances to get in touch to discuss their concerns.
- **Support for employees:**
  - o Lloyds Bank gave employees a £1,000 one-off payment to help with cost-of-living increases.[40]
  - o Barclays gave 35,000 UK employees a £1,200 pay rise to help them deal with the cost-of-living crisis.[41]
- **Mortgage support:**
  - o In December 2022, the Chancellor met with major mortgage lenders, and they committed to help customers by: enabling clients who are up to date with payments to switch to a new, competitive, mortgage deal without another affordability test; providing well-timed information to help customers plan ahead should their current rate be due to end; and extending the term of the mortgage to make monthly payments lower, offering a short term reduction in monthly payments or accepting interest-only payments for a period where appropriate.[42]
  - o In the same month, some of the UK's largest banks agreed measures with the government to help struggling borrowers. These measures could include switching mortgage holders to interest-only deals or moving them on to competitive fixed-rate deals without having to take another affordability test.[43]

33 House of Commons Library, 'Rising cost of living in the UK', (20 December 2022), available at: https://commonslibrary.parliament.uk/research-briefings/cbp-9428/#:~:text=Consumer%20prices%2C%20as%20measured%20by,been%20factors%20causing%20rising%20inflation

34 Office for National Statistics, 'Consumer price inflation, UK: November 2022', (14 December 2022), available at: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2022

35 Office for National Statistics, 'Cost of living latest insights', (18 January2022), available at: https://www.ons.gov.uk/economy/inflationandpriceindices/articles/costofliving/latestinsights

36 Office for National Statistics, 'Consumer price inflation tables', (18 January 2023), available at: https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation

37 Office for National Statistics, 'Public opinions and social trends, Great Britain: 21 December 2022 to 8 January 2023', (13 January2022), available at: https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/publicopinionsandsocialtrendsgreatbritain/latest

38 House of Commons Library, 'Rising cost of living in the UK', (20 December 2022), available at: https://commonslibrary.parliament.uk/research-briefings/cbp-9428/#:~:text=Consumer%20prices%2C%20as%20measured%20by,been%20factors%20causing%20rising%20inflation.

39 Chartered Banker, 'How can banks help amid the cost-of-living crisis?', (25 November 2022), available at: https://www.charteredbanker.com/resource_listing/knowledge-hub-listing/how-can-banks-help-amid-the-cost-of-living-crisis.html

40 Reuters, 'Lloyds to give staff 1,000 pounds to ease cost of living crisis', (13 June 2022), available at: https://www.reuters.com/business/finance/lloyds-offers-staff-1000-pounds-ease-cost-living-crisis-2022-06-13/#:~:text=LONDON%2C%20June%2013%20(Reuters),the%20soaring%20cost%20of%20living.

41 Financial Times, 'Barclays hands UK staff £1,200 pay rise to ease cost of living crisis', (30 June 2022), available at: https://www.ft.com/content/64e987e8-d1d3-467b-b0f1-92df61dad53e

42 HM Treasury, 'Mortgage lenders' commitments to borrowers', (7 December 2022), available at: https://www.gov.uk/government/news/mortgage-lenders-commitments-to-borrowers

43 The Financial Times, 'UK banks to ease pressure on mortgage holders as late payments set to surge', (28 December 2022), available at:

Supporting businesses

Most businesses would not be able to operate without the financial services sector. It supports businesses in myriad ways, ranging from providing current accounts for day-to-day expenditures to insurance cover for assets to growth capital for investment.

The funds businesses need can come from a number of sources. The most common options for companies looking to raise money include bank finance, bonds, equities on stock markets and private equity. Other forms of finance include asset finance, business angel investment, insurance company and pension fund lending, crowdfunding, and private placements. Provision of finance enables companies to invest in creating jobs, training and developing people, and developing their products and services.

Bank lending

The outstanding amount of loans made available by major banks to UK businesses totalled £538.7bn as of November 2022, 2.4% more than in November 2021. Of this total, 37% was lent to SMEs.[44]

Equity and bond financing

Shares: UK and international companies raised £10.7bn in issues of shares on the London Stock Exchange in 2022: £9.1bn in issuance of shares on UK markets; and £1.6bn in international main markets (Figures 10 and 11).[45]

Figure 10: Issues of shares on the London Stock Exchange, £bn, 2022

Source: London Stock Exchange

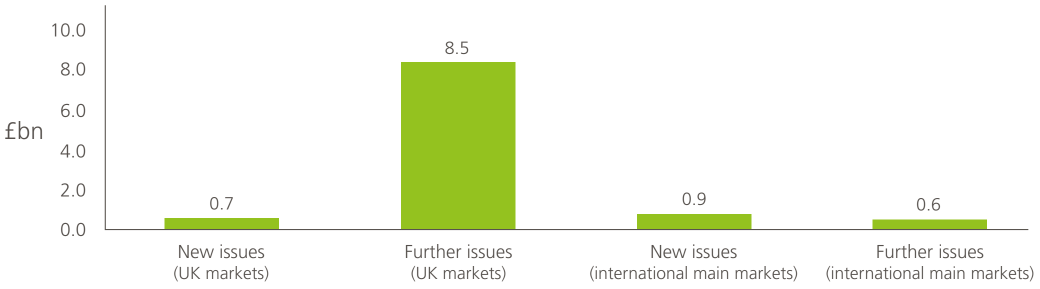
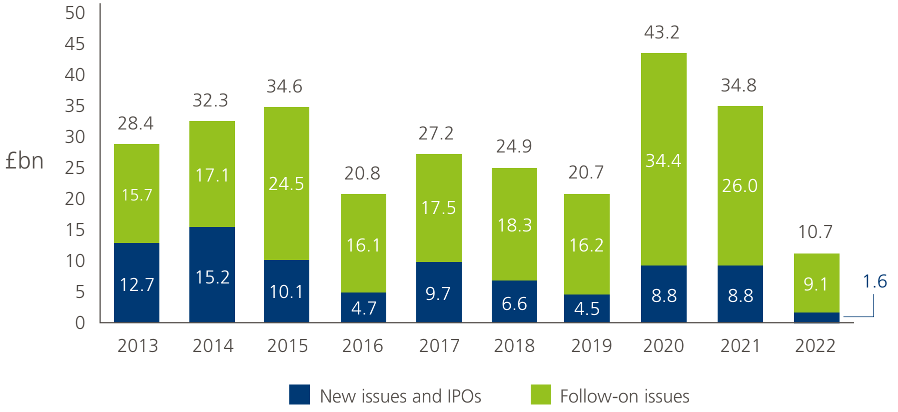


Figure 11: Equity issuance on the London Stock Exchange, £bn, 2012-2022

Source: London Stock Exchange



Small caps from across the UK enjoy access to one of the largest share markets for small companies in Europe, with 816 companies quoted on the AIM by the end of 2022. AIM companies raised £2.4bn through new and further issues of shares.[46]

Bonds: London continues to be a major global centre for the issuance and trading of bonds. According to data from the Bank for International Settlements, the amount of debt securities outstanding in the UK was $5.2trn in the second quarter of 2022. The UK has the largest debt security market in Europe and the fourth largest market globally, behind the US ($50.6trn), China ($21.9trn) and Japan ($11.6trn); for more information see Figure 12.[47]

https://www.ft.com/content/456b41ec-ae6f-48c5-b4e2-d35c877799e8

44 Bank of England, 'Monetary financial institutions' loan to UK non-financial business, by size of business (November 2022)', (2023), available at: https://www.bankofengland.co.uk/boeapps/database/index.asp?first=yes&SectionRequired=A&HideNums=- 1&ExtraInfo=false&Travel=NIxSTx

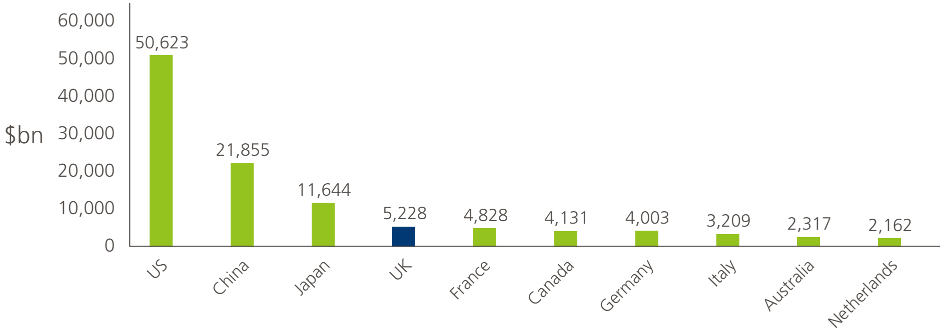
45 London Stock Exchange, 'New and further issues', (31 December 2022), available at: https://www.londonstockexchange.com/statistics/new-issues-further-issues/new-issues-further-issues.htm

46 London Stock Exchange, 'AIM statistics', (December 2022), available at: https://www.londonstockexchange.com/reports?tab=issuers

47 Bank for International Settlements, 'Summary of debt securities outstanding-Q2 2022', (14 February 2022), available at: https://www.bis.org/statistics/secstats.htm?m=6%7C33%7C615

Figure 12: Debt securities outstanding, top countries, $bn, Q2 2022

Source: Bank for International Settlements



Alternative finance

Finance for SMEs has been enhanced by state support schemes such as the Term Funding Scheme with additional incentives for SMEs launched by the Bank of England in 2020, and the Start Up Loans scheme, operated by Start Up Loans, a subsidiary of the British Business Bank.

Alternative finance has an important role to play in financing SMEs. According to the latest available research by the University of Cambridge, the alternative finance market in the UK was estimated to be worth $12.6bn in 2020, showing a significant increase since 2015 when the amount was $4.9bn. Despite to the impact of the Covid-19 pandemic, the UK online alternative finance market grew 14.6% from 2019 to 2020.[48]

Although this figure includes peer-to-peer consumer lending and reward-based crowdfunding, among other models, SMEs in the UK received £6.5bn worth of funding from alternative business finance providers in 2020, accounting for 48% of the total UK alternative finance market. In contrast to the overall alternative finance market increase since 2015, the value of alternative business finance declined slightly between 2019 and 2020.[49] The market is set to continue to expand rapidly, albeit from a very low base: in comparison, outstanding bank loans to SMEs were around £213.2bn in 2020, and around £199.3bn by the end of November 2022.[50]

48 University of Cambridge, 'The global alternative finance market benchmarking report', (June 2021), p.25 & 27, available at: https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf

49 University of Cambridge, 'The global alternative finance market benchmarking report', (June 2021), p.80, available at: https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf

50 Bank of England, 'Monetary financial institutions' loan to UK small and medium-sized enterprises, by industry', (2023), available at: https://www.bankofengland.co.uk/boeapps/database/index.asp?first=yes&SectionRequired=A&HideNums=- 1&ExtraInfo=false&Travel=NIxSTx

There are also a number of other promising opportunities in alternative finance to complement bank lending, such as the development of private placement markets, the re-opening of SME loan securitisation markets as a mechanism to increase (especially longer term) funding to SMEs, the establishment of an institutional market in untranched whole loan conduits, the encouragement of credit rating services for mid-market companies, and the provision of a credit information exchange for SMEs and mid-market companies.

The UK is considered one of the world's leading FinTech markets. According to Innovate Finance, the UK FinTech sector saw record investment of $11.6bn in 2021, up 217% from 2020.[51] In 2021 the UK produced 12 new FinTech unicorns—start-ups valued at $1bn or more—becoming the second country (after the US) in the creation of this kind of company.[52] The FinTech sector could help to SMEs to realise their growth. For instance Payrow is a British FinTech which announced in 2022 the rollout of services to support companies and help them build their freelance services and businesses by providing access to relevant, affordable, and paperless global money-management tools.[53]

Primary destination for private equity

The UK private equity and venture capital sector manages assets totalling around £370bn.[54] In 2021, UK private equity funds invested £34.8bn in more than 1,800 UK companies. Regionally, London accounted for 35.5% of total amount of capital invested, followed by Yorkshire and the Humber (16.6%), the North West (11.8%), and the South East(11.3%); for more information see Figure 13.[55]

According to research from Dealroom.co and London & Partners published in January 2022, the attractiveness of London's tech sector for venture capital investment remained resilient in 2020 and 2021 despite the pandemic and Brexit. London-based tech companies received venture capital investment of $25.5bn in 2021, 2.3 times the investment level in 2020. In 2021, London ranked fourth globally behind the Bay Area ($100.9bn), New York ($47.5bn) and Greater Boston ($29.9bn); at the same time, UK had the same fourth position ($39.8bn) relative to other nations such as United States ($328.8bn), China ($61.8bn), and India ($44.6bn).[56]

51 Innovate Finance, 'UK sees record year for FinTech investment – reaching $11.6bn in 2021', (6 January 2022), available at: https://www.innovatefinance.com/news/uk-sees-record-year-for-fintech-investment-reaching-11-6bn-in-2021-2/

52 Centre for Finance, Technology and Entrepreneurship, 'Top Fintech Unicorns', (2022), p.8, available at: https://courses.cfte.education/ranking-oflargest-fintech-companies/

53 UKtech News, 'Introducing Payrow, the fintech helping SMEs optimise costs', (7 September 2022), available at: https://www.uktech.news/sponsored/payrow-sme-optimise-costs-20220906

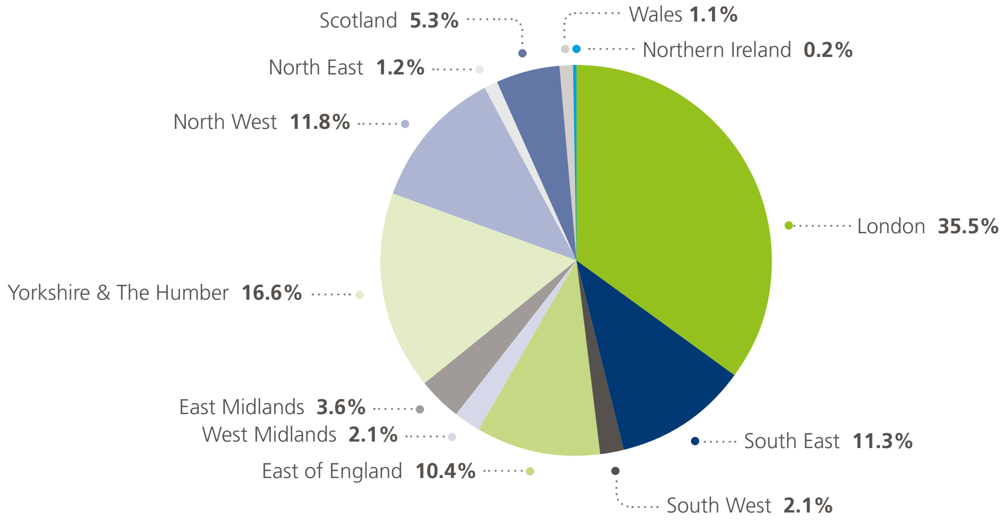
54 The Investment Association, 'Investment management in the UK 2021-2022: The Investment Association annual survey', (September 2022), p.19, available at: https://www.theia.org/sites/default/files/2022-09/Investment%20Management%20Survey%202021-22%20full%20report.pdf

55 British Private Equity & Venture Capital Association, 'BVCA report on investment activity 2021', (July 2022), p.4 & 34, available at: https://www.bvca.co.uk/Portals/0/Documents/Research/Industry%20Activity/BVCA-RIA-2021.pdf

56 Dealroom.co and London & Partners, 'London Tech Set to Reach New Heights in 2022 Following Record Year for VC investment', (13 January 2022), available at: https://media.londonandpartners.com/news/london-tech-set-to-reach-new-heights-in-2022-following-record-year-for-vcinvestment

Figure 13: UK private equity investments, % of amounts invested, 2021

Source: British Private Equity & Venture Capital Association



Investing in infrastructure

The UK government published a National Infrastructure Strategy in 2020, where it set out its goal to deliver an infrastructure revolution to put the UK on the path to the net zero carbon emissions by 2025, and to encourage private investment in UK infrastructure by increasing policy certainty and stability. (The investment targets set out in the Strategy were reaffirmed in the Autumn Statement of November 2022.) Additionally, the UK Infrastructure Bank was established in June 2021 with the objective of providing finance to the private sector and local government for infrastructure projects. The Bank had invested in eight deals worth around £760m, and mobilised over £4.5bn of private capital, as of August 2022.[57]

However, the Bank alone cannot finance the whole of UK infrastructure investment; its £12bn in capital and £10bn guarantees only makes up a small proportion of the overall financing required. The private sector plays a vital role in infrastructure investment. The majority of projects in energy, utilities and digital infrastructure, for example, have been financed privately. Nearly 50% of the infrastructure pipeline is expected to be financed by the private sector in the coming years. The financial services sector is a key player in this private financing: pension funds and insurers are expected to invest £150bn-£190bn in infrastructure in the UK in the next decade.[58] More broadly, the UK-based financial and related professional services industry builds a bridge linking private investors and infrastructure investment. For example, the industry supports infrastructure investment by providing capital, as well as legal and advisory services.

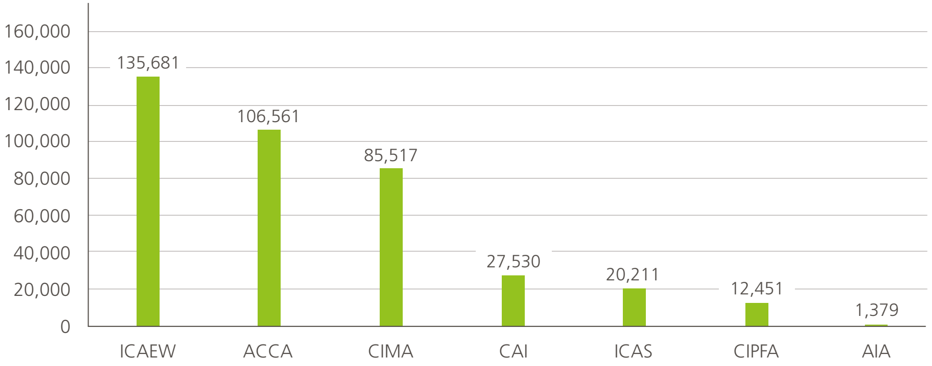
Providing professional and supporting services

The UK has high quality professional and support services; it has the largest and most developed market in Europe for related professional services (accounting, management consulting and legal services). These three sectors contributed £33.5bn, £14.5bn and £34.0bn respectively to UK output in 2022.[59]

According to data from the Financial Reporting Council, there were 389,330 members and students in seven main accountancy bodies in the UK and the Republic of Ireland in 2021, up 2.1% from previous year; in addition, the number of members and students has increased constantly at a compound annual rate of 2% from 2017. The ICAEW was the largest of these, with 135,681 members and students, followed by the ACCA (106,561); for more information see Figure 14.[60]

Figure 14: Members and students in the UK and Ireland, 2021

Source: Financial Reporting Council



57 House of Commons Library, 'UK Infrastructure Bank Bill [HL] 2022-23', (31 October 2022), available at: https://commonslibrary.parliament.uk/research-briefings/cbp-9652/#:~:text=The%20Treasury%20has%20set%20the,renewed%20focus%20on%20energy%20security%E2%80%9D

58 HM Treasury, 'National Infrastructure Strategy', (25 November 2020), available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938539/NIS_Report_Web_Accessible.pdf

59 TheCityUK estimates based on the Office for National Statistics, 'GDP output approach - low-level aggregates', (10 February 2023), available at: https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates

60 Financial Reporting Council, 'Key Facts and Trends in the Accountancy Profession', (August 2022), p.61, available at: https://www.frc.org.uk/getattachment/e9fb0109-5f0f-4f7f-9dd9-4e9135e51e93/FRC-Key-Facts-and-Trends-in-the-Accountancy-Profession_August-2022.pdf

The Policy & Reputation Group (PRG) is a cross-firm industry group made up of representatives from the seven largest UK accountancy firms: EY, KPMG, Deloitte, PwC, Grant Thornton, BDO and Mazars. The PRG seeks to develop an understanding of evolving public interest issues and how these might be addressed to help maintain confidence in the profession to support the UK economy, and to participate constructively in shaping public policy. The PRG has 70,000 employees in the UK, and each year there are around 6,000 entry level positions available. Moreover, over 40% of PRG employees work in 34 offices outside London: 8,600 in the South (excluding London); 8,500 in the North; 6,600 in Midlands; 3,500 in Scotland; 2,800 in Northern Ireland; and 1,100 in Wales.[61]

Financial education and other social initiatives

In keeping with its role as a facilitator of wider economic growth, the financial and related professional services industry also plays a role in relevant social initiatives such as financial education. Examples include:

- Money Heroes platform from Young Money, supported by HSBC, is a three-year programme since 2021, aimed at improving financial capability skills, knowledge and confidence in decision making about money, for children aged 3 to 11. The platform enables teachers and parents to collaborate, to deliver joint home and school learning, and allows both parties to track progression of children on the platform.[62]
- HSBC also supports the Scout Association with a new Money Skills Activity Badge with the purpose of developing confidence and an understanding of money in the Scouts group; the new activities and badge are available to over 200,000 Scouts aged 6 to 10.[63]
- Barclays designed a free financial education programme called LifeSkills with the purpose of helping people to learn the money and career skills they need to progress in life. This scheme was created with content for educators, parents and young people and has helped around 13 million people.[64]
- NatWest offers a free financial education programme for young people from 5 to 18 years old, called MoneySense. It is based on activities, games and resources that can help to teach children about money at home or at school.[65]

61 PRG, ‘Jobs and Opportunities’, available at: https://www.theprg.uk/our-activities/
62 Young Enterprise, ‘Money Heroes’, (2021), available at: https://www.young-enterprise.org.uk/money-heroes
63 HBSC UK, ‘Financial Literacy for Kids’, (2022), available at: https://www.hsbc.co.uk/financial-education/developing-learning/
64 Barclays,’Learn about LifeSkills’, (2023), available: https://www.barclays.co.uk/digital-confidence/lifeskills/
65 NatWest, ‘MoneySense’, (2023), available at: https://natwest.mymoneysense.com/home/

Conclusion

The financial and related professional services industry generates employment, contributes to economic output, and supports businesses and individuals through banking, insurance, fund management, accounting, management consulting and legal services. Both employment and economic output in the industry have been increasing in recent years.

The industry is constantly redefining itself to support people and businesses, as evidenced during the Covid-19 pandemic and the current high-inflation environment. In addition, its traditional service models are also evolving. Through technology development, consumers benefit from digital financial services such as online banking, banking apps and contactless payments. Businesses are supported through bank lending, equity and bond financing, alternative finance and private equity, as well as accounting, management consulting and legal services.

List of sources

Association of British Insurers

Bank for International Settlements

Bank of England

Barclays

British Private Equity & Venture Capital Association

Centre for Finance, Technology and Entrepreneurship

City of London Corporation

Dealroom.co

Financial Conduct Authority

Financial Reporting Council

HM Revenue & Customs

HM Treasury

House of Commons Library

HSBC

Investment Association

Innovate Finance

LawtechUK

London & Partners

London Stock Exchange

Ministry of Housing, Communities & Local Government

NatWest

Northern Ireland Statistics and Research Agency

Nomis

Office for National Statistics

Policy & Reputation Group

PwC

TheCityUK

UK Finance

UNCTAD

University of Cambridge

Young Enterprise

TheCityUK Research:

For content enquiries, further information about our work or to comment on our programme/reports, please contact:

Anjalika Bardalai, Chief Economist and Head of Research
anjalika.bardalai@thecityuk.com
+44 (0)20 3696 0111

Carolina Quinaucho, Economic Research Analyst
carolina.quinaucho@thecityuk.com
+44 (0)20 3696 0126

Note: This report includes analysis based on data available as of 10 February 2023

TheCityUK

TheCityUK, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8BF
www.thecityuk.com

MEMBERSHIP
To find out more about TheCityUK and the benefits of membership visit **www.thecityuk.com** or email us at **membership@thecityuk.com**