



HM Treasury

# Financial Services Trade and Investment Board:

annual report 2016-2017

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November 2017





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# Foreword

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The UK is the largest net exporter of financial services in the world. This is due to our strength in all the major sectors, from banking to asset management to insurance; regulation that strikes the right balance between stability and competition; a legal system known for its fair treatment of all; and our inherent advantages, including time zone and the English language. It is this unique offering that allows the financial sector to thrive the length and breadth of the country and which means London continues to be the preeminent global financial centre.

We don't take this for granted and are determined to do our utmost to maintain and strengthen the UK's leading position. A competitive financial sector, and assured financial stability, are fundamental to our long-term plan for economic growth. This means pursuing a bold and ambitious agreement on financial services as we negotiate our exit from the EU, something that will be in the interests of the UK and our citizens, but also in the interests of the EU and wider global markets.

As we continue our journey to leave the EU and seek to establish new trading relationships with international partners, the role of the Financial Services Trade and Investment Board (FSTIB) – promoting open dialogue between government and industry – will be all the more important. Inevitably, the work of the Board will continue to evolve, driving forward established priorities but remaining flexible to take advantage of the exciting new opportunities that arise.

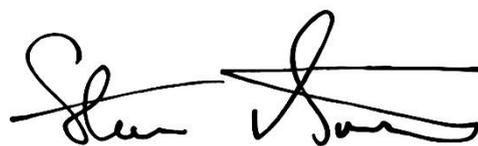
The past year has seen FSTIB continue to contribute to the competitiveness of the UK financial services sector. Among the highlights, two more of China's largest financial institutions have opened representative offices in London, further building the overseas financial community in the UK; London has firmly established itself as the leading global hub for rupee bonds, a new market already worth \$3.4 billion globally; and we have further reinforced the UK's position as the leading global FinTech hub, hosting the inaugural International FinTech Conference and signing two more FinTech bridges with overseas partners to facilitate growth in a sector already worth £7 billion to the UK economy.

In the coming year, FSTIB will continue to build on these successes while identifying new opportunities to drive and sharpen the UK's competitive edge, strengthening the innovation, dynamism, and diversity of our world-leading financial services sector.



**Philip Hammond**

*Chancellor of the Exchequer*



**Stephen Barclay**

*Economic Secretary to the Treasury*



# 1 Introduction

**1.1** The Financial Services Trade and Investment Board (FSTIB) aims to increase the competitiveness of UK financial services, supporting the industry to export abroad and attract overseas investment into the UK. A competitive financial services sector forms a key component of the UK economy and is an important provider of products and services to markets across the world.

**1.2** Banks and peer-to-peer lenders provide the working capital that small businesses need to grow; fund managers provide billions of pounds of funding for infrastructure projects; and insurance companies diversify and mitigate risk for consumers, businesses and investors to offer protection against the unknown.

**1.3** FSTIB is a joint government-industry partnership that reports directly to the Chancellor of the Exchequer and is chaired by HM Treasury. The Board has a mandate to guide the UK government's strategy and high level priorities on financial services trade and investment.

**1.4** Following feedback from the previous Board and the endorsement of new members, the structure of the Board was altered for the 2016-2017 period. Changes made included:

- changing and reducing the number of initiatives taken forward by the Board to focus on seven workstreams representing government-industry priorities;
- appointment of a board member to lead on and take account for work under each priority workstream; and
- appointment of a delivery partner to provide the required resource to take work forward in line with objectives set by workstream leads.

**1.5** Further details on membership and structure of the Board can be found in Chapter 3.



## Financial services and the UK economy

**1.6** The UK financial services industry represents a major source of jobs, employing more than one million people,<sup>1</sup> rising to 2.2 million when associated professional services are included.<sup>2</sup> Of the one million employed in financial services, 421,000 work in banking, 315,000 work in insurance, 41,000 work in fund management and 268,000 work in other financial services.<sup>2</sup>

**1.7** The financial services industry is a source of jobs across the whole UK, with two-thirds of these located outside of London. While London is the UK's and the world's global financial centre, there are regional financial centres the length and breadth of the country including Belfast, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, and Manchester.

**1.8** Corporation tax in the UK is the lowest in the G20 and remains one of the lowest in Europe. Financial services represent a large contributor to UK tax receipts however – a contribution that has grown by 10.6 per cent over the financial year 2015/16. Over this period, UK financial services contributed £71.4 billion to the Exchequer, accounting for 11.5 per cent of total tax receipts.<sup>3</sup>

### Total contribution of financial services to UK tax receipts

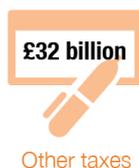
Financial services contributes 11.5 per cent of total UK tax receipts.



Over **1 million** people are employed in financial services, contributing **£31 billion** in employment taxes.



Corporation Tax receipts grew by over **10.5 per cent** year on year



Other taxation from the financial services industry, including bank levy, irrecoverable VAT and insurance premium tax.



\*Paid in the UK in the year to 31 March 2016.

Source: City of London Corporation/PwC

**1.9** The UK financial services sector remains integral to the UK and wider European economy by helping individuals and businesses invest for the long-term. As of end-2015, outstanding bank lending to all companies was £430 billion. Loans made available by banks to UK SMEs totalled £5.3 billion for Q1 2017, up seven per cent on Q4 2016.<sup>4</sup>

<sup>1</sup> 'Workforce jobs by region and industry' (Q4 2016), Office for National Statistics; March 2017

<sup>2</sup> UK-based financial and professional services: Enabling growth across the UK, TheCityUK; February 2017

<sup>3</sup> Total tax contribution of UK financial services: Ninth edition, City of London Corporation/PwC; December 2016

<sup>4</sup> Bank support for SMEs – 1<sup>st</sup> quarter 2017, British Banking Association; June 2017

## Annual progress report

1.10 This document contains:

- A detailed progress report, highlighting successes and areas of focus for each workstream over the past year, and outlining important work on the horizon for the coming year; and
- A forward look at the future of FSTIB and its role in increasing competitiveness of the UK's financial services industry.



## 2 Detailed progress report

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### The FSTIB work programme 2016-2017

**2.1** At the start of the current reporting period, HM Treasury announced that the ten priorities would be reduced and amended to form seven key priority workstreams. New workstreams were implemented at the start of the 2016-2017 reporting period, designed to prioritise areas of greatest importance and opportunity.

**2.2** The Board met for the first time in October 2016 following the workstream restructure. Over the past year progress has been focused on the following areas:

- 1 **UK-US Financial Partnership:** To further deepen links and enhance co-operation between the world's two pre-eminent financial centres;
- 2 **UK-China Financial Partnership:** To establish close ties and deepen financial cooperation between China and the UK;
- 3 **UK-India Financial Partnership:** To increase trade and investment between the financial centres of India and the UK;
- 4 **Investment Management:** To improve the competitiveness of the UK for the investment management industry;
- 5 **FinTech:** To develop the UK FinTech sector, increasing trade and investment opportunities to ensure the UK remains a world leader in this space;
- 6 **Capital Markets:** To increase the competitiveness of UK capital markets, further developing depth, liquidity and fair regulation; and
- 7 **Insurance:** To increase the market share of UK insurers in priority markets and attract inward investment to the UK market.

### UK-US Financial Partnership

**2.3** The UK-US financial services relationship is a cornerstone of the global economy. The US is the source of the single biggest contribution of FDI in UK financial services, the biggest non-European contributor of FDI in UK professional services, and accounts for 25 per cent of UK professional services exports.

**2.4** The UK-US Financial Partnership workstream was established in July 2016 to deepen links and enhance co-operation between the world's two pre-eminent financial centres. This includes considering ways to promote targeted efforts to grow financial and related professional services exports and inward investment, upholding the consistent adoption of existing and future global standards, and how best to coordinate policy and regulatory coherence across the industry more broadly. A key area of focus is support of new and developing areas of business, including data, cyber and FinTech.

**2.5** Highlights over the past year include:

- The Department for International Trade hosting four inward missions to the UK, leading six trade missions to the United States, and engaging on a targeted programme of events to promote UK-US trade and investment.

- Active engagement by TheCityUK with US policymakers, regulators, and economic and business representatives.
- Market Advisory Group roundtables held in London and New York, to take views from industry and hear evidence from experts.

**2.6** The UK's exit from the EU presents further opportunities for expanding the close relationship between the UK and US in financial services. The UK and US governments have established a US-UK Trade and Investment Working Group, which will initially focus on what both sides can do in the short term to facilitate bilateral trade and investment, consistent with the UK's obligations as a member of the EU until it leaves, and with an eye toward ensuring certainty and continuity for business as the UK prepares to exit the EU.

**2.7** Furthermore, TheCityUK US Market Advisory Group (MAG), convened in September 2016, has been tasked by FSTIB to study opportunities to enhance cooperation in the UK-US financial and related professional services relationship and develop granular proposals that could be taken forward within or outside the framework of a potential UK-US trade agreement, including options for improving regulatory coherence.

**2.8** Over the coming year:

- The UK-US Trade and Investment Working Group, which met in the US for the first time in July 2017, will meet again before the end of 2017 and over the course of 2018.
- The US MAG will form a technical working group to identify ways in which to secure the current access and scale of transatlantic trade and investment, and how to increase US-UK trade in financial and related professional services.
- Government and industry will continue to engage with senior UK and US public and private sector representatives to gauge their priorities and identify areas of common action, at both bilateral and multilateral levels.

## UK-China Financial Partnership

**2.9** The last year has seen the continued strengthening of the UK's cooperation with China on financial services. The eighth UK-China Economic and Financial Dialogue (EFD), co-chaired by the Chancellor of the Exchequer, Rt Hon Philip Hammond MP, and Vice-Premier Ma Kai, took place in November 2016. The EFD marked the latest phase of the UK's financial services collaboration with China and resulted in a range of significant policy and commercial announcements. These included agreement on a new strategic plan for UK-China financial services cooperation and the establishment of an annual UK-China Financial Services Summit to be led by the UK and Chinese private sectors in support of the EFD. The plan will provide strategic direction for financial services cooperation in the coming years, including making progress towards reciprocal market access, and the summit will help identify and deliver even closer financial services collaboration.

**2.10** Highlights of the past year include:

- As part of the UK-China EFD, the London Stock Exchange and Shanghai Stock Exchange working together to research and prepare implementation arrangements for a **London-Shanghai Stock Connect** – the first of its kind outside Greater China.
- The UK and China agreed a suite of initiatives to promote **closer collaboration on green finance**. This included establishing platforms and channels to enhance cross-

border green capital flows. UK-China cooperation on green finance was marked by the issuance in London of a 'green covered bond' by Bank of China in November 2016 – the first such bond issued by a Chinese entity – and agreement of a partnership between the City of London's Green Finance Initiative and the China Financial Society Green Finance Committee.

- The **continued growth of the Chinese financial community in the UK**. 2016 saw China Life (China's largest life insurer) open a representative office in London – its first office outside Asia. In March 2017, Shanghai Clearing House opened a representative office in London – its first such office outside China. China Foreign Exchange Trade System are expected to open a representative office in London in the near future, and the China Investment Corporation and China Banking Association have both re-affirmed their commitment to open offices in London in due course. Chinese commercial banks continued to expand their operations in the City across foreign exchange trading, commodities, and trade finance. This builds on the regulatory approval of wholesale bank branches for China Merchants Bank and Bank of Communications in 2016. The UK-based financial and related professional services industry has been helping Chinese firms grow their networks within the UK's financial ecosystem and has undertaken a project to assess the UK's continued attractiveness as a regional HQ for Chinese firms.
- The **first steps to establishing strong cooperation on FinTech**. As part of the UK-China EFD, both sides agreed to establish a UK-China FinTech Bridge. The Bridge will strengthen regulatory cooperation and boost reciprocal market access for both UK and Chinese firms. The agreement was marked by the signing of a FinTech cooperation agreement between the Financial Conduct Authority (FCA) and the People's Bank of China in the margins of the UK-China EFD. UK industry has also helped deepen private sector engagement with Chinese FinTech players, including through a showcase event at the 2016 EFD and through discussions with the National Internet Finance Association of China.
- The UK-China Green Finance Task Force, agreed between the City of London's Green Finance Initiative and China's Green Finance Committee, has **published market-led recommendations on the scaling-up of green finance and continued UK-China market and thought leadership** ahead of the 2017 EFD.

#### The UK as a global centre for green finance



**Bank of China** issued a **\$500 million** 'green covered bond'

**2.11** Building on the progress made over the past year, the government will continue to work through FSTIB to enhance the UK-China financial partnership, and deliver the new strategic plan for UK-China financial services cooperation. Over the coming year:

- The ninth UK-China EFD will take place in December 2017 in Beijing, providing a platform to build upon market progress made across financial services sectors.
- The UK-China Financial Services Summit, co-chaired by China Construction Bank and HSBC, will submit formal recommendations for market reform and liberalisation.

## UK-India Financial Partnership

**2.12** India is forecast to be the fastest-growing G20 economy in 2017 and, according to some sources, is soon expected to overtake China as the world's most populous country. The government is undertaking bold new liberalising reforms, including on ease of doing business; the introduction of a national Goods and Services Tax that will transform India into a single unified common market for the first time; and the rapid expansion of the world's largest biometric identification system that is expected to radically change how benefits are distributed and how payments can be made.

**2.13** The last year has seen the financial services relationship with India go from strength to strength. The Prime Minister's visit to India in November 2016 and the ninth UK-India EFD led by the Chancellor and Financial Minister Jaitley in Delhi in April 2017 saw a series of high profile financial and commercial announcements that have further deepened the financial services relationship between India and the UK.

**2.14** The UK is in prime position to benefit from India's continued growth and the government is determined that the UK remains India's partner-of-choice for financial and related professional services.

**2.15** Across this workstream, highlights of the past year include:

- The **establishment of the UK as the world's leading centre for offshore rupee bonds**. This year has seen the creation of an entire new market in rupee-denominated, or 'masala', bonds from Indian issuers, already worth \$3.4 billion globally. With the UK hosting the first Indian masala bond from the Housing Development Finance Corporation; the first government-backed and first green masala bond from the National Thermal Power Corporation; and the largest masala bond so far from the National Highways Authority of India. Furthermore, British Columbia became the first sub-sovereign to issue a masala bond, also listed on the London Stock Exchange.
- **Major developments in FinTech collaboration**. The FCA and Reserve Bank of India are taking forward collaboration and will sign a regulatory cooperation agreement soon. World First, a UK-based foreign exchange company, received approval to open its first Indian office in Bangalore, with plans to handle half a billion pounds in international transfers by 2020.
- A **renewed mandate for the India-UK Financial Partnership (IUKFP)**. The IUKFP was announced at the 2014 EFD in India by the Chancellor and Indian Finance Minister Jaitley. It was established as a private sector-led initiative to make recommendations to governments to strengthen financial links between the two countries. The past

year saw the IUKFP issue influential papers on: financial inclusion, responsible shareholder engagement, rupee internationalisation and green finance. The 2017 EFD saw the mandate of the IUKFP renewed with topics including: FinTech; India-UK financial services trade and investment; and ease of doing business in financial and related professional services.

- **Concrete commitment to a strategic partnership on infrastructure finance.** The UK and India have reaffirmed commitment to anchor invest up to £120 million each in a joint fund under India's flagship National Investment and Infrastructure Fund (NIIF), with the aim to crowd in investment from the private sector. The fund will focus on India's rapidly growing green sector, and a fund manager is expected to be selected by the end of the year.

### London as the global centre for rupee-denominated bond issuance



The UK established itself as the world's leading centre for offshore rupee bonds

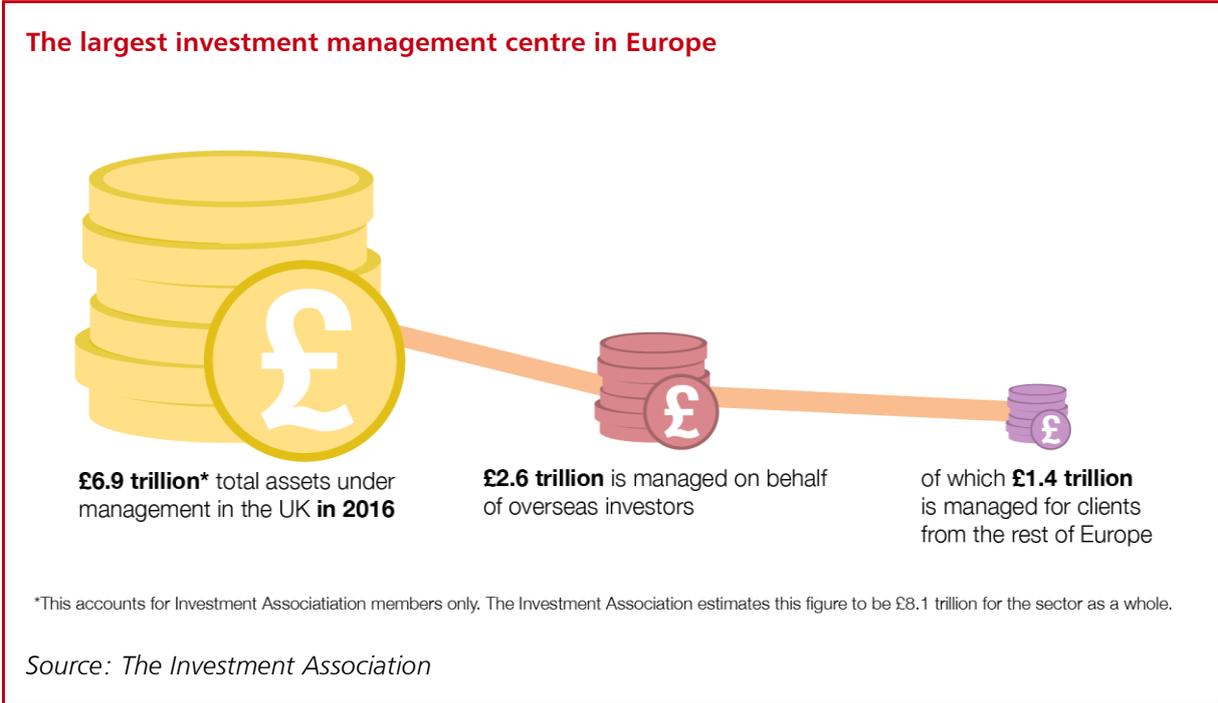
**2.16** Over the coming year, priorities will include:

- Facilitating dialogue between the FCA and the Reserve Bank of India on greater regulatory cooperation in FinTech.
- Following the Early Market Engagement with investors in both Delhi and London for the joint India-UK fund under the NIIF, the government will continue to work towards leveraging private sector capital and expertise into Indian infrastructure. The government welcomes further recommendations from the IUKFP and will support the implementation of key policies stemming from this.
- Building on the UK's current \$2.7 billion share of the \$3.4 billion market for rupee-denominated bonds, the government looks forward to welcoming further masala bonds being listed in London.
- The 2018 EFD, taking place in the UK, will build on the considerable accomplishments following the step change seen in the 2017 EFD. The government will ensure continued momentum making the event next year the best yet.

## Investment Management

**2.17** The UK is the largest centre for asset management in Europe and the second largest globally, serving millions of clients and providing a key source of funding for the domestic and global economy. The asset management industry forms a core component of the UK's financial

services sector, providing liquidity to financial markets and generating highly skilled jobs across the UK. The UK asset management industry is also global in nature, and that includes managing 36 per cent of the total assets managed in Europe.



**2.18** The industry has a leading role in the provision of solutions to issues facing both the UK and its international partners, including retirement, sustainable finance, market infrastructure and financial technology.

**2.19** The government is committed to enhancing the competitiveness of the UK’s asset management industry and strengthening the status of the UK as a global financial centre and has implemented a range of initiatives to meet these objectives. These include measures to create a simple, fair and streamlined tax regime, a responsive regulatory environment and a coordinated marketing approach to promote the strengths of the UK asset management industry overseas.

**2.20** These initiatives were designed to improve the UK asset management industry’s competitiveness and increase high quality employment and economic growth in the UK by increasing asset management exports and attracting new firms, funds and investment into the UK. As such, the government has continued to engage with the industry to increase assets under management in the UK, attract overseas asset managers to the UK and ensure that UK asset managers can compete in key markets across the globe.

**2.21** Highlights of the past year include:

- The **introduction of the Private Fund Limited Partnership (PFLP)**, a new category of Limited Partnership designed specifically to be used by investment funds, such as private equity and venture capital funds. The PFLP reduces the administrative burdens for funds to structure and operate as a Limited Partnership, increases legal clarity for firms and enhances the competitiveness of these structures.

- Industry-led and government-supported **international business delegations** to promote the UK asset management industry. Throughout 2016, the Investment Association, in conjunction with the government, received a number of business delegations from overseas jurisdictions which allowed industry to showcase the strengths of UK asset management. With government support, the Investment Association also led a successful delegation to China in January 2017, where engagement with Chinese business leaders furthered interest in the development of future trade and investment opportunities.
- The creation of a **practitioner-led Trade and Investment Committee**, reflecting the industry's strengthened focus on the UK's international position. Led by the Investment Association, this body is comprised of senior executives with a remit to advise on the role of the industry in the development of the UK's future trade and investment policies, the business and commercial issues concerning individual market opening strategies and the position of the UK as a global hub for the industry. It also operates as the primary industry group for contributing thought-leadership to FSTIB.
- The continuation of a sustained **overseas marketing campaign**, which is delivered by government and industry bodies. This has involved the promotion of relationships between UK-based asset managers and international jurisdictions through industry-hosted events such as the UK-South Korea Asset Management Roundtable, the UK-China Financial Forum and the Brazil Roundtable. UK Ministers and senior government officials have also visited several jurisdictions, including Brazil, China, Hong Kong and the US, and participated in major industry events such as FundForum International.
- The Department for International Trade has continued work on the **One Stop Shop** – a concierge service put into place by the 2013 Investment Management Strategy that streamlines processes for overseas asset managers seeking to locate in the UK. Through this initiative and the department's wider work, the government has supported 18 asset managers to locate in the UK from a range of markets, including China, the US, Brazil, Australia and Korea. It has also supported eight expansion projects from foreign asset managers with offices in the UK.
- The agreement during the **UK-China EFD** to support the enhancement of communication and cooperation on asset management. During this engagement, both sides built upon the consensus reached in previous years to strengthen communication between the FCA and the China Securities Regulatory Commission to facilitate mutual understanding on asset management and the regulatory regimes of the two countries.
- The development of the **UK's green finance and sustainable investment agenda** in conjunction with the asset management industry. Initiatives on green finance and climate bonds have attracted significant international interest, with the potential to create unique green finance and climate bond exports for the UK asset management industry.

**2.22** The government will continue to work through FSTIB to pursue government-industry objectives. Over the coming year, this will include:

- enhancing dialogue between government, industry and the regulator through the newly established Asset Management Taskforce. This brings together CEOs within the UK asset management industry, senior representatives from investor groups and

the FCA to discuss how to reinforce the UK's position as a global centre for asset management. The Taskforce met for the first time in October 2017 and will continue to meet quarterly;

- further developing strong government engagement with key industry events;
- building partnerships with jurisdictions beyond the EU to ensure that UK asset managers are able to make the best of global trading opportunities; and
- assessing potential policy options in light of the Investment Association's future research, which will aim to assess the views of the UK asset management industry on priorities and opportunities for global trade and investment.

## FinTech

**2.23** The policy work of the government, combined with the trade promotion activities of FSTIB partners and the Department for International Trade, aims to foster the best investment environment and appropriate regulatory framework for FinTech firms to succeed across the UK.

**2.24** Over the past year, the FinTech workstream has directly contributed to new measures, major events and improved trade ties with priority markets. These include:

- Publishing a **FinTech Strategy for UK Based Financial and Related Professional Services**, launched at Deloitte in March 2017. The strategy identified five strategic drivers to boost growth in this area and ensure that incumbents are capitalising on these innovations to support their exports and investments.
- Establishing a **senior Steering Committee of practitioners** from across industry to help identify priority areas. This has flagged the need to focus on earlier regulatory guidance for upcoming technologies and trends; the mismatch between the skills universities teach and the needs of employers; and the potential to further unlock FinTech through greater interoperability between incumbents and Start-Ups.
- **Commissioning two reports on FinTech collaboration:** the first with support from Santander and Shearman & Sterling, on the various models through which incumbents and FinTechs can partner, and the legal issues to consider with each; the second with support from Deloitte, on the potential of FinTech to overhaul back-office functions, through the medium of Shared Platforms.
- **Convening a working group of academics from the Russell Group of universities**, with help from Sir Anton Muscatelli, Vice Chancellor of the University of Glasgow, to explore the appetite for a blueprint on FinTech skills required by industry in future years.

**2.25** Other initiatives delivered by HM Treasury to support the FSTIB FinTech programme over the past year include:

- **Four 'FinTech Bridges' were established** – with Singapore in May 2016, the Republic of Korea in July 2016, China in November 2016 and Hong Kong in October 2017. A fifth bridge with Australia is currently being developed. FinTech Bridges provide opportunities for UK FinTechs that want to scale-up internationally. By establishing links between government, regulators and private sectors, Bridges reduce the barriers to entry in a new jurisdiction and link UK FinTech firms with opportunities for international investment. The UK's FinTech Bridges all contain regulatory

cooperation agreements negotiated between the FCA and their regulatory counterparts.

- In November 2016, **the finance platforms referrals scheme was started**. Banks must now refer businesses to whom they do not offer loans to a platform where alternative lenders can provide them with a loan. The aim is to make it easier for businesses to access finance when they have been turned down by traditional lenders.
- **HM Treasury and the Department for International Trade hosted the inaugural International FinTech Conference** in April 2017. Attended by over 800 people, the aim of the conference was to consolidate London's position as the world's leading FinTech hub and increase capital investment by showcasing the UK's FinTech sector to domestic and international investors. It has been confirmed that a second conference will be held early in 2018.
- **Eileen Burbidge was reappointed** as HM Government's Special Envoy for FinTech in July 2017 for a further two years.

#### FinTech Bridges established over the past year

**Two** new FinTech Bridges established with China and Hong Kong, taking the total to **four**



**2.26** Over the coming year, workstream initiatives will deliver:

- A FinTech skills blueprint in early 2018, to be developed through interviews with incumbents in TheCityUK's membership, and in conjunction with the convened group of academics.
- A dialogue to explore in depth a number of specific upcoming FinTech trends hand-in-hand with the relevant regulators.
- A roadshow on the US West Coast to promote opportunities in UK FinTech, with the aim of attracting talent and investment from this mature FinTech market.

**2.27** Longer term government policy deliverables that will go live in 2018 include:

- The revised Payment Services Directive (PSD2) has been transposed into UK law. PSD2 aims to provide greater choice for consumers by creating a new regulatory regime for third party providers wishing to access bank account information and make payments on behalf of customers. PSD2 provides much of the groundwork for Open Banking.
- Open Banking will allow authorised third parties such as FinTech firms and alternative finance providers to securely access customer current account data through a standardised Application Programming Interface to provide innovative new services. HM Treasury is working with industry to deliver this.

## Capital markets

**2.28** London offers a long standing globally-oriented investor base, with over \$2 trillion invested in international equity. In 2016, there were 65 initial public offerings (IPOs) in London and a total of £30 billion in equity capital raised by 464 companies across London Stock Exchange Group's (LSEG) Main Market and Alternative Investment Market (AIM). Between January and September 2017, this has already increased year-on-year to a total of £31 billion in equity capital raised by 423 companies with 69 IPOs. The availability of capital allows firms to expand, supporting the creation of new jobs and economic growth.

**2.29** Highlights of the workstream over the past year include:

- In May 2017, LSEG launched a new **International Securities Market (ISM)**, an exchange-regulated multilateral trading facility (MTF) for primary debt issuance targeted at institutional and professional investors. National Thermal Power Corporation's second five-year Masala Bond and Virgin Media's existing issue of AT1 capital were the first bonds to be admitted to trading on the ISM.
- In September 2017, the government confirmed that issuers on all MTFs would benefit from **an exemption from withholding tax on interest** as of April 2018 (subject to the Finance Bill). This change, once in effect, will help ensure that MTFs such as the ISM are as commercially competitive as MTFs set up in other jurisdictions.
- **Supporting London's credentials as a hub for green finance**, making London one of the most attractive locations for both UK and international firms to list and trade green bonds. In August 2017, SSE Plc issued the largest-ever green bond by a UK headquartered energy company, supporting the development of an active UK market for green products. Implementation of the ISM initiative has made the UK more competitive for international firms listing green bonds, highlighted by the Rural Electrification Corporation of India launching the first green bond on ISM in June 2017. In total, there are now over 50 green bonds listed on the London Stock Exchange. The Government's Green Finance Taskforce includes a workstream on capital markets, which will seek views from experts on specific policy recommendations to further enhance the UK's credentials in this area.
- **Supporting London's credentials as the western hub for Islamic finance**, by making London one of the most attractive locations for the listing and trading of Sukuk (the Shariah-compliant equivalent to bonds). In April 2017, LSEG welcomed the issuance of the largest Sukuk to be issued by a supranational globally, raising \$1.25 billion through the listing from the Saudi Arabia-based Islamic Development Bank.

**2.30** Over the coming year, the Capital Markets workstream will continue to build on the competitiveness and international focus of the UK's capital markets to support capital formation and economic growth that works for SMEs, large companies and investors alike. This will include work on:

- Helping international companies to raise capital in UK markets more easily, targeting the route of admission and the regulatory process faced by foreign firms looking to raise capital in the UK.
- Building upon initiatives such as the International Securities Market to further increase the competitiveness of London as a location for raising capital.

## Insurance

**2.31** Insurance is a significant export industry for the UK. The sector exported £17.6 billion in 2016, representing approximately 6 per cent of the UK's total exports. The UK's trade surplus in insurance and pensions services was £17.4 billion, or approximately a quarter of the UK's total trade surplus in financial services, insurance and pensions. UK insurers such as Prudential, Aviva, Standard Life and Bupa today provide insurance to customers in major trading partners including the US, Canada and Australia, as well as in emerging markets across Asia and Africa. In addition, London is the world's preeminent centre for specialty insurance. Corporate clients from around the world insure complex risks through London, drawing on its unique cluster of underwriting talent, capital and high regulatory standards. The London Market was worth an estimated \$91.3 billion in gross written premiums in 2015, of which \$24.6 billion was 'managed business' marketed through though not written in London.<sup>5</sup>

**2.32** Key highlights from the workstream over the last year include:

- The development of a new competitive corporate and tax structure that will allow **Insurance Linked Securities (ILS)** business to be domiciled in the UK. At Autumn Statement 2016, HM Treasury published draft tax and non-tax regulations for consultation allowing ILS business to be domiciled in the UK. The consultation closed in January 2017 and since then HM Treasury has worked with the Prudential Regulation Authority, FCA and industry stakeholders to finalise the regulations. The regulations were laid in Parliament in October 2017.
- The Department for Business, Energy and Industrial Strategy engaged in a six-month work programme aiming to **identify barriers to growth for UK InsurTech start-ups**. As part of the programme, BEIS convened a workshop with government, regulators and industry. HM Treasury is considering the proposals from industry to tackle the barriers to growth identified and further increase competitiveness of the UK insurance industry.
- **Increased participation of UK insurers and reinsurers in Chinese markets.** Through the eighth UK-China EFD in November 2016, Chinese insurers and reinsurers agreed to collaborate with UK insurers and reinsurers on Belt and Road projects, utilising expertise of the UK market to ensure adequate and effective insurance for all elements of the project.
- **Lloyd's of London opening their first Indian reinsurance branch.** In April 2017, the Chancellor officially launched Lloyd's of London's Indian reinsurance branch in

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<sup>5</sup> *London Matters 2017: The competitive position of the London Insurance Market*, London Market Group/Boston Consulting Group; May 2017

Mumbai with MS Amlin the first Lloyd's syndicate to operate in India. This will provide speciality reinsurance protection onshore in India for the first time.

- **Further liberalisation of the Brazilian reinsurance market.** Delivered through the second UK-Brazil EFD in July 2017, the Brazilian government committed to further liberalisation of regulation restricting the activity of foreign reinsurers operating in Brazil.

**2.33** Over the coming year, priorities of the workstream will include:

- Work to develop the ILS market, creating a hub for this new form of risk management in London.
- Using HM Treasury led EFDs with China, India and Brazil to support the further liberalisation of the insurance sectors in these priority overseas markets

## 3 Forward look

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**3.1** Since the relaunch of FSTIB in 2015, the Board has been given a renewed mandate to boost financial services trade and investment. Board membership has altered over the past year to incorporate changing government structures, as well as changes in industry leadership.

**3.2** One addition was made to the Board:

- Miles Celic, CEO, TheCityUK

**3.3** The six remaining Board members agreed to reprise their roles:

- Inga Beale DBE, CEO, Lloyd's of London
- Nathan Bostock, CEO, Santander UK
- Gerry Grimstone KBE, Chairman, Standard Life Aberdeen
- John McFarlane, Chairman, Barclays
- Helena Morrissey DBE, Head of Personal Investing UK, Legal and General Investment Management
- Xavier Rolet KBE, CEO, London Stock Exchange Group

**3.4** Government is represented on the Board by ministers and senior officials from HM Treasury, the Foreign and Commonwealth Office and the Department for International Trade:

- Stephen Barclay MP, Economic Secretary to the Treasury
- Mark Garnier MP, Under Secretary of State at the Department for International Trade
- Katharine Braddick, Director General, Financial Services, HM Treasury
- Richard Knox, Director (International), Financial Services, HM Treasury
- Rob Ward, Deputy Director, Global Financial Markets, Financial Services, HM Treasury
- David Bartlett, CEO, Financial Services Organisation, Department for International Trade
- Shamik Dhar, Chief Economist and Director for Economics, Foreign and Commonwealth Office

### Priorities for the board over the coming year

**3.5** HM Treasury's intention is for the Board to continue to function under the same workstreams as it has over the past year. The current structure of the Board continues to represent government and industry priorities, although it is important that the Board remains alert to changing circumstances and the new opportunities that may arise.

**3.6** Workstream leads and associated delivery partners are:

- **UK-US financial partnership** led by John McFarlane, Barclays, and supported by TheCityUK
- **UK-China financial partnership** led by Gerry Grimstone, Standard Life Aberdeen, and supported by TheCityUK
- **UK-India financial partnership** led by Miles Celic, TheCityUK
- **Insurance** led by Inga Beale, Lloyd's of London, and supported by the Association of British Insurers
- **Investment Management** led by Helena Morrissey, Legal & General Investment Management, and supported by the Investment Association
- **FinTech** led by Nathan Bostock, Santander UK, and supported by TheCityUK
- **Capital Markets** led by Xavier Rolet, London Stock Exchange Group, and supported by TheCityUK

## The future role of FSTIB

**3.7** Over the past year, FSTIB has made progress across each of the priority workstreams, making real contributions across financial services sub-sectors. The importance of delivery against these workstreams will only increase as the UK negotiates its exit from the EU. The Board provides an established forum for government-industry dialogue, and acts as a vehicle to advise, challenge, and deliver the UK's financial services trade and investment priorities.

**3.8** Given this context, FSTIB will continue to play a vital role informing government's engagement in bilateral discussions with priority markets and offering insight on barriers to trade. Progress has been well documented under the China and India workstreams through the Economic and Financial Dialogues and looking forward the work of the US workstream will play a similar role informing closer UK-US financial cooperation.

**3.9** As well as work to improve financial cooperation with priority markets, the Board will continue to prioritise initiatives to increase trade and investment targeted at specific sub-sectors. The Investment Management workstream has developed the UK's green finance and sustainable investment agenda to create unique green and sustainable exports for UK asset managers; and the Capital Markets workstream continues to look to develop and diversify market based sources of finance.

**3.10** In addition to the international focus of FSTIB, the Board also has an important role to play in domestic financial services. This has predominantly involved innovation under the FinTech workstream, supporting the sector to develop in the UK; and supporting the development of new legislation to facilitate growth of the UK's Insurance Linked Securities market under the Insurance workstream.