House of Commons Library

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18 November 2024

Financial services in the UK

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Number 6193

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Summary

The UK's financial system

The financial system is made up of various types of institutions including companies, associations and regulators. This paper provides a broad overview of the roles these institutions play and the laws which govern them.

In 2022, the UK financial system had assets of around £27 trillion. Of this, £14 trillion (around half) was held by banks, £1 trillion was held by the Bank of England, and the remainder was held by insurance companies, pension funds and other financial institutions (for example investment funds).

The UK's largest banks by total assets are HSBC, Barclays, Lloyds, NatWest and Standard Chartered.

Economic output and jobs

The financial and insurance services sector contributed £208.2 billion to the UK economy in 2023, 8.8% of total economic output. It was the fourth largest industry in terms of economic output. The financial services sector was largest in London, where half of the sector's economic output was generated.

The UK financial services sector was the fourth largest out of Organisation for Economic Cooperation and Development (OECD) countries in terms of the proportion of national economic output it generated in 2023. Luxembourg's financial services sector was the largest in the OECD, contributing 24% of the country's economic output.

There were 1.17 million financial services jobs in the UK in the first quarter of 2024, 3.1% of all jobs. It was the 12th largest sector in terms of the number of jobs supported out of the 20 major industrial sectors.

Trade in financial services

The UK exports a lot more financial services than it imports. In 2023, exports of financial services were worth £91.8 billion, while imports were worth £18.6 billion, resulting in a trade surplus of £73.2 billion.

The value of financial services exports in real terms (adjusted for inflation), and as a proportion of all services exports, has generally fallen since the 2008 financial crisis. The value of the UK's trade surplus in financial services was 28% lower in 2023 compared to 2008.

UK trade in financial services with EU countries has changed significantly between 2017 and 2023. The proportion of financial services exports going to the EU was 40% in 2017 compared to 34% in 2023.

UK financial services exports to the US, Switzerland, Canada, Hong Kong and Singapore have increased by 78% in cash terms between 2017 and 2023, compared to 29% for the EU.

The change in the nature of UK trade in financial services with the EU is likely to be at least partly a result of the end of the Brexit transition period in January 2020. The UK-EU Trade and Cooperation Agreement (TCA) included limited provision for access in financial services.

Tax contribution of financial services

Taxes on the financial services industry raised £37.1 billion in 2023/24, 3.5% of all taxes collected that year according to data from HMRC. Research from PwC for the City of London Corporation using a broader measure of taxes reported that the financial sector contributed £79.3 billion in taxes in the year to March 2023, 9% of total government receipts in 2022/23.

Other sources

There are a several other sources of information on the financial services sector. City UK represents the interests of the financial services sector in the UK and publishes an annual assessment of the economic impact of the UK financial services sector, most recently in March 2024:
Key Facts about UK-based financial and related professional services.

1 An overview of the UK's financial system

The financial system is made up of various types of institutions including companies, associations and regulators. This chapter provides a broad overview of the roles these institutions play and the laws which govern them.

1.1 Private sector institutions

Banks and building societies

Legally speaking banks are firms authorised to accept deposits from customers, that is money received which is lent to others or used to finance the bank's other activities.[1] [2]

Banks extend loans to individuals and businesses and may provide other services such as payment services. Building societies operate similarly, but under a different legal framework. They are owned by their customers and tend to focus on providing mortgages funded from customer savings.[3]

The UK's largest banks by total assets are HSBC, Barclays, Lloyds, NatWest and Standard Chartered.[4] For example, in 2023 NatWest Group had £693 billion of assets. Of this the bulk comprised £381 billion in loans made to customers and £104 billion in the bank's cash and balances held at the Bank of England.[5]

Insurance companies and pension funds

Insurance companies sell two broad types of insurance: general insurance and life insurance.[6]

General insurance usually comprises short term policies taken out to cover losses from unforeseen events, such as car insurance or home insurance. Most general insurance products will pay out an amount based on the loss incurred. General insurance is purchased by both individuals and businesses.

Life insurance is paid over a long period or the whole of someone's life (sometimes called life assurance) and usually provides a payment in the

1 Bank of England, "Thinking of becoming a bank" (accessed 10 September 2024)
2 The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001
3 Building Societies Act 1986
4 S&P Global, "Europe's 50 largest banks by assets", 30 April 2024
5 NatWest Group, 2023 Annual Report and Accounts, page 300
6 Bank of England, "What does insurance cover?", updated 3 December 2020

event of death. The amount received will depend on the policy. For example, policies may be designed to pay off an outstanding mortgage or provide a fixed sum.[7]

Additionally, insurance companies may seek to manage their own risk by buying insurance themselves, which is called reinsurance.[8]

Pension savings may be on the books of insurance companies or those of self-administered pension funds.[9]

Investment schemes

There are various types of investment scheme, catering to different customer needs. These schemes invest customer savings in company debt or shares, providing a return to the customer.

Common types of investment scheme include:

- **Unit trusts**: Customers can buy units in the trust's fund, which itself comprises a certain portfolio of assets chosen by an asset manager.[10] There isn't a limit to the number of units on offer. If more customers buy into the fund, its size will increase and vice-versa if customers sell their units the fund decreases.

- **Open-ended investment companies (OEICs)**: These are similar to unit trusts, though rather than customers buying a unit in the trust they buy shares in the company. The value of these shares varies depending largely on the value of the underlying assets. OEICs can issue new shares to meet demand.

- **Exchange-traded funds (ETFs)**: These are like OEICs but shares are traded on a stock exchange and so can be bought and sold throughout the day. They are usually structured to track the performance of a group of companies (like the value of the FTSE 100 – an index which tracks the share performance of the largest 100 listed companies in the UK).[11]

- **Investment trusts**: These are companies which issue shares traded on a stock market but are closed-ended meaning there are a fixed number of shares on offer. To buy into the trust a customer will need to buy a share from a current owner. Investment trusts, unlike unit trusts or OEICs can borrow money to make investments. This can generate higher returns for shareholders but also increases risk.

7 Royal London, "Life insurance" (accessed 10 September 2024)
8 HMRC internal manual, LAM10020 - Reinsurance: What is reinsurance?, updated 21 November 2023
9 As above
10 Barclays, "Introduction to funds" (accessed 10 September 2024)
11 Barclays, "What is a tracker fund" (accessed 10 September 2024)

Many of these funds are marketed to retail customers and as such are highly regulated. Other funds usually marketed to wealthy, sophisticated investors include:

- **Hedge funds**: Hedge funds commonly invest in a wider range of assets than other funds and may borrow money to make further investments. The word "hedge" refers to the fact that hedge funds may invest in assets fund managers feel may perform in opposite directions to limit risks, though in practice other types of funds may invest in assets to hedge their risks.[12]

  Hedge funds are particularly known for using short selling to make profit out of a falling market.[13] Managers will borrow shares (usually for a fee), with the promise to return them. They will then sell the shares, hoping to buy them at a lower cost when their price falls and return them, keeping the difference.

- **Private equity and venture capital funds**: Private equity funds seek to buy stakes in mature firms, large enough to gain influence over their management. Their aim is to improve their profitability and so the value of their own shareholdings. Venture capital funds invest in young companies with high growth potential. In 2023, the British Private Equity and Venture Capital Association estimated the UK sector invested £31 billion in 2023.[14]

1.2 Size of the UK financial sector

There's not just one way to get a sense of the size of the financial sector, but a common approach is to look at the assets held by different types of institutions, that is, what they own. [15]

In 2022, the UK financial system had assets of around £27 trillion. By comparison, gross domestic product, that is the value of everything produced in the UK in 2022, was around £2.5 trillion.

Of this £27 trillion in assets:

- £14 trillion (around half) was held by banks excluding the Bank of England
- £1 trillion was held by the Bank of England
- £2 trillion was held by insurance companies

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[12] Fidelity, "Should you hedge?", 5 April 2023

[13] IG Prime, "How do hedge fund managers find short selling stocks?", 14 July 2022

[14] British Private Equity and Venture Capital Association, BVCA Report on Investment Activity 2023, 8 May 2024

[15] Financial Stability Board, Global Monitoring Board Report on Non-Bank Financial Intermediation 2023 monitoring dataset, converted from US dollars to Pounds sterling using Office for National Statistics exchange rate data series AUSS

- £2 trillion was held by pension funds
- £8 trillion was held by other financial institutions (for example, investment funds – funds may also manage assets on behalf of clients which don't count in these statistics as the fund's own assets)

A trend since the financial crisis has been the movement of assets away from banks and into other types of financial institutions. Banks accounted for 62% of UK financial assets in 2008, falling to 46% in 2021, before growing to 51% in 2022.

More detail breaking down the types of banks and non-banks which hold assets in the UK financial system, is available from the Bank of England's 2014 article "Mapping the UK financial system", though given its age should only be used as an indicative guide at most.

1.3 Financial sector infrastructure

The following are some of the key institutions which make financial transactions and transactions of financial assets work.

Payment systems

Payment systems allow people and organisations to make payments to each other. There are a number of systems with different purposes. For example:

- The Clearing House Automated Payment System (CHAPS) is run by the Bank of England and used to make high-value payments such as house purchases.[16]
- Bacs is a payment system used to, among other things, pay direct debits while Faster Payments is used to transfer money between accounts at any time of day. Both are run by non-profit pay.uk, supervised by the Bank of England's Financial Market Infrastructure Directorate (FMID) and regulated by the Payment Systems Regulator (PSR).[17]
- Mastercard and Visa operate the two largest card payment systems in the UK.[18]
- LINK operates the network used in most UK cash machines. This allows customers to withdraw their money from cash machines provided by companies other than their own bank.[19]

16 Bank of England, "CHAPS", updated 5 September 2024
17 Pay.uk, "About Us" (accessed 10 September 2024)
18 Payment Systems Regulator "Card payments" (accessed 10 September 2024)
19 Payment Systems Regulator, An introduction to the UK's Interbank Payment Schemes (pdf) (accessed 10 September 2024)

Stock exchanges

Stock exchanges are marketplaces where shares in certain companies can be traded.[20] Originally stock exchanges were physical locations where traders met to buy and sell shares, though they are now typically electronic exchanges.

Companies can apply to have their shares listed on a given exchange. This incurs costs and requires the company to meet regulatory standards but gives them access to more capital, can reduce the risk of trades, and carries a certain amount of prestige.

Those wanting to buy or sell shares at either the current market price or a specific price typically operates through a stockbroker who executes these orders. The exchange matches up these buy orders and sell orders.

Clearing houses

Clearing houses, also known as central counterparties (CCPs), sit between buyers and sellers in trades for assets like shares.[21] After a trade is agreed, buyers and sellers transact via CCPs.

This reduces the risk to say, a buyer, that in between agreeing a trade and the trade completing, the seller might fail (what's called counterparty risk). The CCP takes on this risk and has procedures and resources to ensure trades go through in these events. For example, CCPs require members meet creditworthiness standards, and put forward an amount of collateral in advance of trades. CCPs can draw on this and the collateral of other members to guarantee trades.

Central Securities Depositories

Central Securities Depositories (CSDs) hold financial assets like shares and bonds (loans provided to companies and governments) and record their ownership.[22] This allows the ownership of assets to be transferred following a trade, also known as settlement. UK regulation requires trades to be settled two business days after the date of the trade.[23]

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20 IG, "What is a Stock Exchange?" (accessed 10 September 2024)

21 Bank of England, "Central counterparties: what are they, why do they matter and how does the Bank supervise them?", 13 June 2013

22 Hargreaves Lansdown, "Bonds vs shares – what's the difference and how do they work?", 29 June 2023

23 Financial Conduct Authority, "Central securities depositories", updated 30 October 2023

1.4 The Bank of England

The Bank of England (henceforth referred to as "the Bank") has various roles within the financial sector, which include:

- **Monetary policy**: The Bank has responsibility for keeping inflation at 2%, a target set by the Treasury, though is independent of government in deciding how to do this.[24] Its main tools are adjusting the rate of interest it pays to financial institutions which hold money (reserves) at the Bank, and the buying and selling of government debt (quantitative easing and tightening respectively).

  These actions then influence the rates commercial banks charge the public and businesses. Lower rates and quantitative easing serve to stimulate spending in the economy, driving up the rate of inflation. Conversely higher rates and quantitative "tightening" reduce spending in the economy. These monetary policy decisions are taken by the Bank's Monetary Policy Committee. For the latest on international central bank policy see the Commons Library briefing Interest Rates and Monetary Policy: Key Economic Indicators.

- **Financial stability**: The Bank is also responsible for making sure the UK has a stable financial system, led by its Financial Policy Committee.

- **Prudential regulation**: Through the Prudential Regulation Authority, the Bank sets rules for financial institutions to ensure they are managing risk appropriately and have sufficient funds.[25]

- **Managing bank failure (resolution)**: The Bank has certain powers to help manage the failure of banks (resolution) where it thinks that letting the bank fail would cause unacceptable disruption to the sector or wider economy. Resolution may involve writing off the equity owned by the bank's shareholders, finding a third-party buyer, or taking a bank into public ownership.[26]

- **Payment and settlement**: The Bank is responsible for managing a payment system called CHAPS, which is used generally for high-value payments, such as house purchases. The Bank also provides the infrastructure for settling payments across all major payment systems in the UK. For example, if someone transfers money from their Barclays account to a friend with a NatWest account using Faster Payments, that will be settled by moving the money between those banks' reserve accounts at the Bank of England.[27]

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[24] HM Treasury, Monetary Policy Remit: Autumn Statement 2023, 22 November 2023

[25] Bank of England, "Prudential regulation", updated 10 September 2024

[26] Bank of England, "Resolution", updated 6 August 2024

[27] Bank of England, Bank of England's Real-Time Gross Settlement Service: Service Description (pdf), October 2017

- **Issuing banknotes**: The Bank is responsible for printing Bank of England banknotes (commercial banks in Scotland and Northern Ireland print their own banknotes). These are then bought by commercial banks to meet customer demand, and to replace worn out notes.[28]

1.5 Public bodies and the legal framework

HM Treasury is responsible for financial services policy and passing necessary legislation through Parliament.

Some of the key pieces of legislation governing financial services include:

- Financial Services and Markets Act 2000: This sets the framework for authorising and supervising financial services firms including the remit of the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA).
- Consumer Credit Act 1974: This regulates the provision of consumer credit, like credit cards, and sets the rights and obligations of lenders and consumers.
- Banking Act 2009: This outlines tools the Bank of England can use to deal with failing banks.
- Payment Services Regulations 2017: This establishes the authorisation and regulation of payment service providers by the Payment Systems Regulator

The **Financial Conduct Authority (FCA)** is the independent regulator for financial service conduct. It has a broad remit to set rules on conduct for financial services firms, providing they advance its legal objectives to protect consumers, promote market integrity and promote competition. [29] The FCA has been given specific rule-making powers in other areas, such as a requirement to protect access to cash services. [30] The FCA also has powers and responsibilities to monitor and enforce money laundering regulations on financial services firms.[31]

The FCA also sets prudential standards for a subset of financial service firms, while the **Prudential Regulation Authority (PRA)**, part of the Bank of England, is responsible for the prudential regulation of the largest firms including banks, building societies credit unions, insurers and some investment firms.[32] These regulations are intended to ensure firms are financially stable and manage risks appropriately.

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28 Bank of England, "Banknotes", updated 14 June 2024

29 Financial Services and Markets Act 2000

30 Commons Library research briefing CBP-9453, The future of local banking services and access to cash

31 FCA, FCA Handbook EG 19.14 (accessed 13 September 2024)

32 FCA, "About the FCA", updated 5 September 2024

The PRA also has rule-making powers to advance its objectives; its general objective is to promote the safety and soundness of firms it regulates.[33] It is responsible for making sure the firms it regulates comply with, among other things, requirements to have adequate capital and liquidity.

The **Payment Systems Regulator (PSR)** is responsible for promoting competition and innovation in payment systems. It can make rules and directions to system operators and has enforcement powers to deal with firms failing to comply with rules.[34]

The **Pensions Regulator**, a public body sponsored by the Department for Work and Pensions, regulates occupational pension scheme (also called trust-based schemes). These are run by a board of trustees on behalf of beneficiaries. The FCA regulates personal pension schemes (also known as contract-based schemes). These involve contracts between individual beneficiaries and pension providers.[35]

These are the main regulators for financial services in the UK. Other important public bodies include:

- Financial Ombudsman Service (FOS): The FOS provides dispute resolution between consumers and firms regulated by the FCA, which is free to use by consumers. If it finds in favour of the complainant and the complainant accepts its recommendation of redress, delivering that redress becomes a legally enforceable requirement for the firm in question. If the complainant doesn't accept the FOS's recommendations, they are free to pursue the matter in the courts.

- Financial Services Compensation Scheme (FSCS): The FSCS provides compensation to customers if their financial service provider fails and is unable to return their money. It is funded by an industry levy.

- Financial Regulators Complaints Commissioner (FRCC): The FRCC independently reviews complaints about the actions of the financial service regulators, specifically the FCA, PRA, PSR and the Bank of England. It does not adjudicate on complaints about the FOS or FSCS.

33 Financial Services and Markets Act 2000

34 Financial Services (Banking Reform) Act 2013

35 M&G wealth, "Legal Structures of Pension Schemes", updated 6 April 2024

2 Economic contribution of the financial sector

2.1 Measuring the economic contribution of the financial sector

Measures of the financial services sector usually include the activities of a wide range of firms, including retail banks, building societies, investment banks and hedge funds, and are wider than the activities of financial services firms located in the City and Canary Wharf. ‘Financial services’ in this briefing paper are defined as the financial and insurance activities sector, Standard Industrial Classification Section K.

These statistics usually measure the contribution of the financial services and/or related sectors on a stand-alone basis. To some extent they may under-estimate the sector’s total contribution to the UK economy. This is because a well-functioning financial sector may have positive “spill-over” effects for other sectors of the economy. For example, it may increase firms’ access to credit and therefore help other sectors to grow.

There are a several other sources of information on the financial services sector. City UK represents the interests of the financial services sector in the UK and publishes an annual assessment of the economic impact of the UK financial services sector, most recently in March 2024:
Key Facts about UK-based financial and related professional services.

The City UK analysis uses different sources and so is not directly comparable to the data used in this paper.

2.2 Economic output

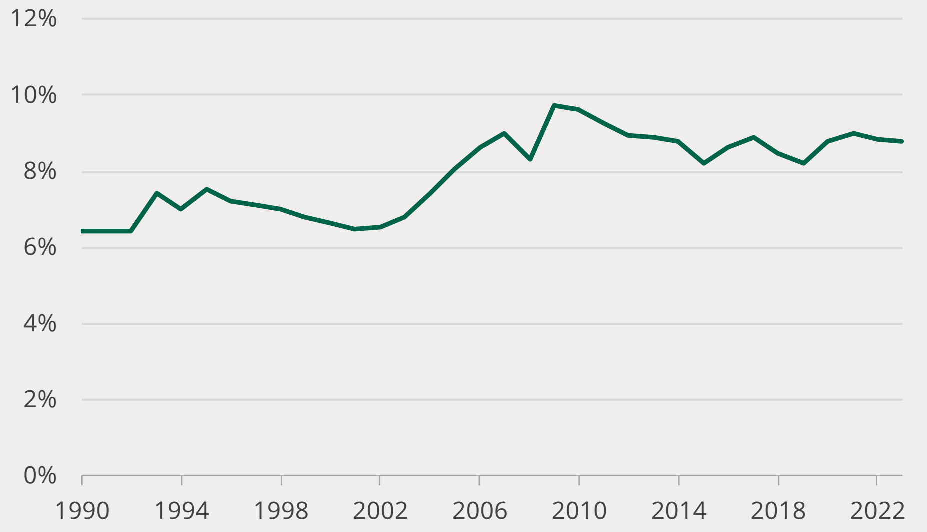
Economic output over time

Financial and insurance services contributed £208.2 billion to the UK economy in 2023, 8.8% of total UK economic output.[36] It was the fourth largest sector in terms of overall economic output.[37]

Financial and insurance activities have grown as a proportion of total economic output since the early 2000s. The sector's economic contribution grew from 6.6% of the economy in 2000 to a peak of 9.7% in 2009. Since the financial crisis in 2008/9 the size of the sector has remained relatively stable at around 9% of total economic output.

Financial services economic output

% of total UK economy, 1990–2023



Source: ONS, Low level aggregates, series KKP5 and KKK9, accessed 6 November 2024.

[36] In terms of Gross Value Added (GVA). GVA is similar to GDP but used to measure the contribution of part of the economy, such as an industry or region. In brief, GVA is the contribution of part of the economy, minus costs incurred in production.

[37] Of the 20 main industrial sectors based on Standard Industrial Classification sections. For a comparison of output by industry, see the Library briefing, Industries in the UK, 3 October 2024.

Economic output in the regions and countries of the UK

There is a wide disparity in the financial sector's contribution to the economy across different regions and countries of the UK. London accounted for over half of the total UK financial and insurance sector's economic output in 2022.[38]

The financial sector in London contributed £101.1 billion to the UK economy in 2022, 19% of London's total economic output. This is a much higher proportion than in any other part of the UK.

Financial services: economic output by UK country & region

2022

	£ billions	% regional output	% UK financial services
London	101.1	19%	50%
South East	18.5	6%	9%
Scotland	14.0	8%	7%
North West	13.8	6%	7%
South West	10.3	6%	5%
East of England	9.7	5%	5%
Yorks & Humber	10.1	7%	5%
West Midlands	9.4	6%	5%
Wales	4.6	6%	2%
East Midlands	4.8	4%	2%
North East	3.0	5%	1%
Northern Ireland	2.6	5%	1%
United Kingdom	201.9	9%	100%

Notes: Figures are not comparable to Section 2.1 due to revisions to national statistics. UK total includes output not assigned to a region/country.
SIC code Section K, current prices.
Source: ONS, Regional Gross Value Added (balanced) by industry, 24 April 2024.

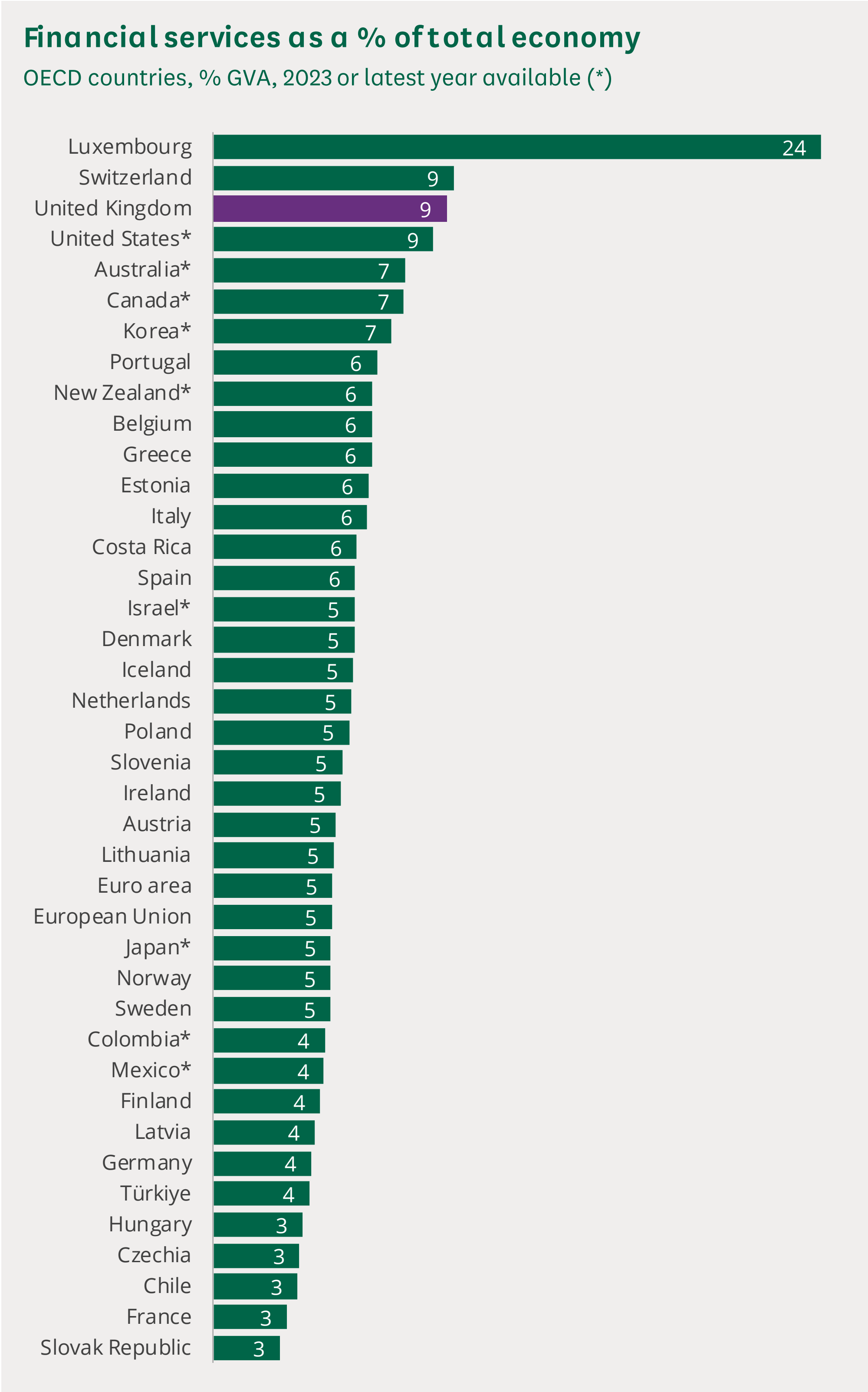
International comparisons

The UK financial services sector was the fourth largest out of Organisation for Economic Cooperation and Development (OECD) countries in 2023 by its proportion of national economic output (8.8%).[39]

Luxembourg's reliance on the financial services is a significant outlier (the sector accounts for 24% of economic output in Luxembourg). This is because Luxembourg's economy is relatively small and many of the major European financial institutions are based there.

38 ONS, Regional Gross Value Added (balanced) by industry, 24 April 2024.

39 OECD, OECD Data Explorer NAAG Chapter 4: Production, accessed 29 August 2024. OECD Member countries are a group of 38 economically developed countries.



Source: OECD, OECD Data Explorer NAAG Chapter 4: Production, accessed 29 August 2024.

2.3 UK competitiveness as a global financial centre

Part of the reason for the UK's relatively large financial sector is the competitiveness of its main centre, London.

The Global Financial Centres Index (GFCI) is a twice-yearly index comparing the competitiveness of the world's leading financial centres, published by Z/Yen (a City of London think tank) and the China Development Institute (a China-based think tank). It takes into account a number of factors, including reputation, quality of infrastructure, human capital and business environment, and responses to questionnaires.[40]

In March 2024 GFCI ranked London second in the world (behind New York), where it has been since March 2018.[41] Before then it was ranked first.[42] The report stated that New York maintains a "clear lead" over London.

Edinburgh was ranked 33rd, up from 34th in September 2023. Glasgow ranked 42nd, up nine places from September 2023.[43] European cities scoring highly included Geneva (7th), Frankfurt (13th), Paris (14th), Zurich (16th) and Luxemburg (17th).

[40] See The Global Financial Centres Index 35, March 2024, pp2-4 and Appendix 3 for methodology

[41] See The Global Financial Centres Index 35, March 2024

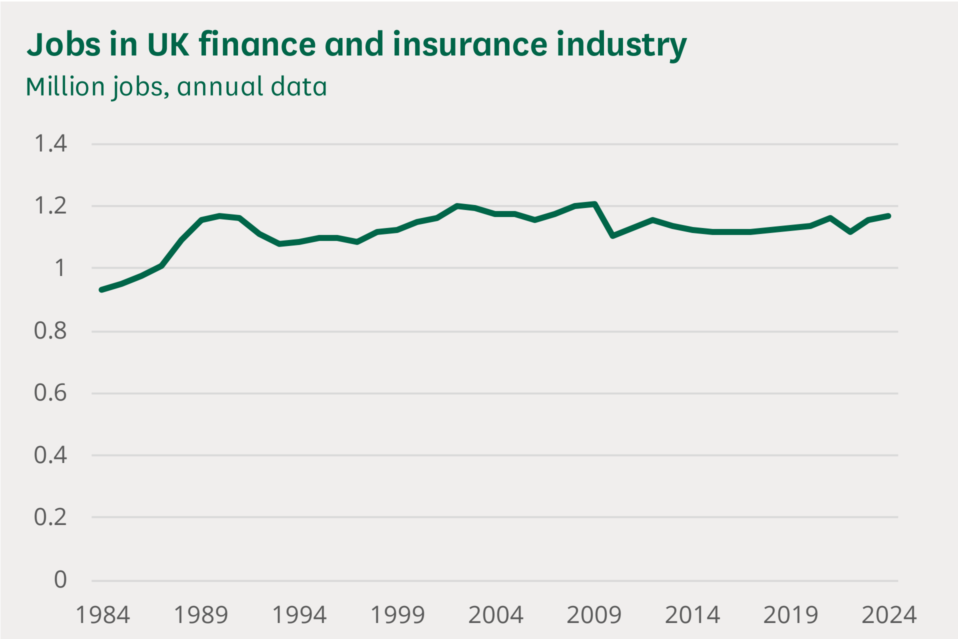
[42] See The Global Financial Centres Index 23, March 2018

[43] See The Global Financial Centres Index 35, March 2024

3 Jobs in financial services

In the first quarter of 2024, there were 1.17 million jobs in the financial and insurance services sector in the UK, 3.1% of all jobs.[44] It was the 12th largest sector in terms of the number of jobs supported, out of the 20 major industrial sectors.[45]

The number of jobs in the financial services sector has remained broadly steady since the early 1990s, but the proportion of all jobs represented by financial services has fallen by about one percentage point as the number of jobs in the whole economy has grown.



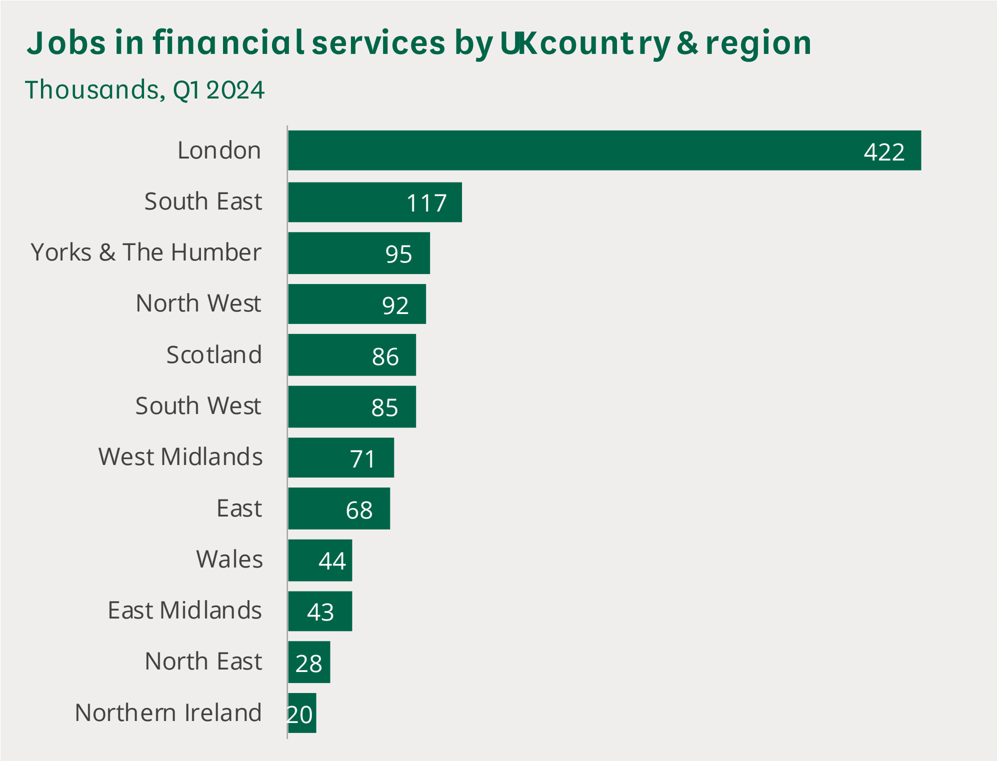
Source: ONS, Workforce jobs data, via NOMIS database, 16 July 2024, Financial and insurance activities, SIC Section K.

Jobs by region

The following chart shows the number of financial services jobs in each region and country of the UK. London has by far the most financial services jobs in

44 Note this does not necessarily represent the number of people employed as individuals may hold more than one job.
45 See the Library briefing, Industries in the UK, 3 October 2024, for a comparison of jobs by industry.

2024, with 421,990 or 36% of all the financial sector jobs in the UK. Financial services account for around 6.4% of all jobs in London.



Source: ONS, Workforce jobs data, Q1 2024, via NOMIS database, 16 July 2024.

Jobs in financial services, UK country & region

Q1 2024

	Thousand jobs	% of regional jobs	% UK financial services
London	422	6.4%	36.1%
South East	117	2.3%	10.0%
Yorks & The Humber	95	3.3%	8.1%
North West	92	2.4%	7.9%
Scotland	86	2.9%	7.3%
South West	85	2.7%	7.3%
West Midlands	71	2.3%	6.1%
East	68	2.1%	5.8%
Wales	44	2.8%	3.7%
East Midlands	43	1.7%	3.6%
North East	28	2.3%	2.4%
Northern Ireland	20	2.1%	1.7%
United Kingdom	1,171	3.1%	100.0%

Source: ONS, Workforce jobs data, Q1 2024, via NOMIS database, 16 July 2024.

4 Trade in financial services

4.1 Overall trade in financial services

The UK exports a lot more financial services than it imports.

In 2023, exports of financial services were worth £91.8 billion, while imports were worth £18.6 billion, resulting in a trade surplus of £73.2 billion.

The value of financial services exports in real terms (that is, adjusted to account for inflation) has generally fallen since the 2008 financial crisis, shown in the chart below.

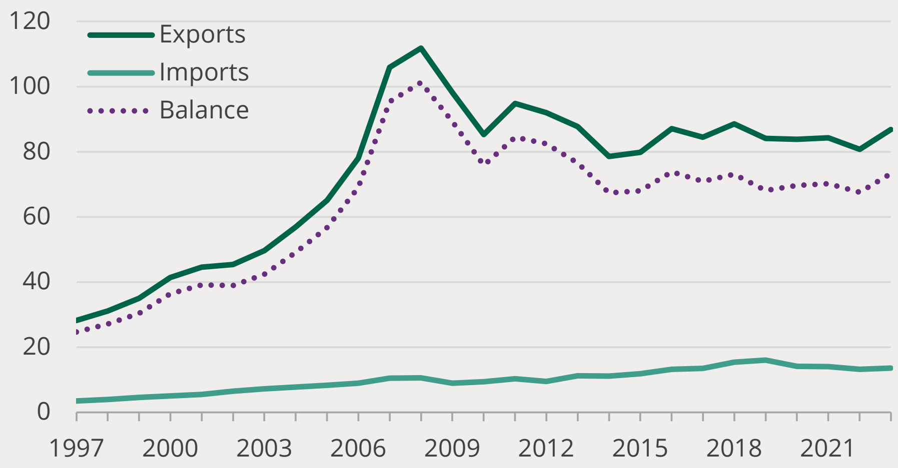
The value of UK financial services exports were 22% lower in real terms in 2023 than in 2008. This is contrary to the general trend in UK services exports. Over the same period, the value of all UK service exports increased by 53% in real terms.

By contrast, UK imports of financial services have increased since 2008. The value of UK financial services imports were 28% higher in real terms in 2023 compared to 2008. Over the same period, the value of all UK service imports increased by 70%.

In real terms, the value of UK's trade surplus in financial services was 28% lower in 2023 compared to 2008.

UK trade in financial services, 1997-2023

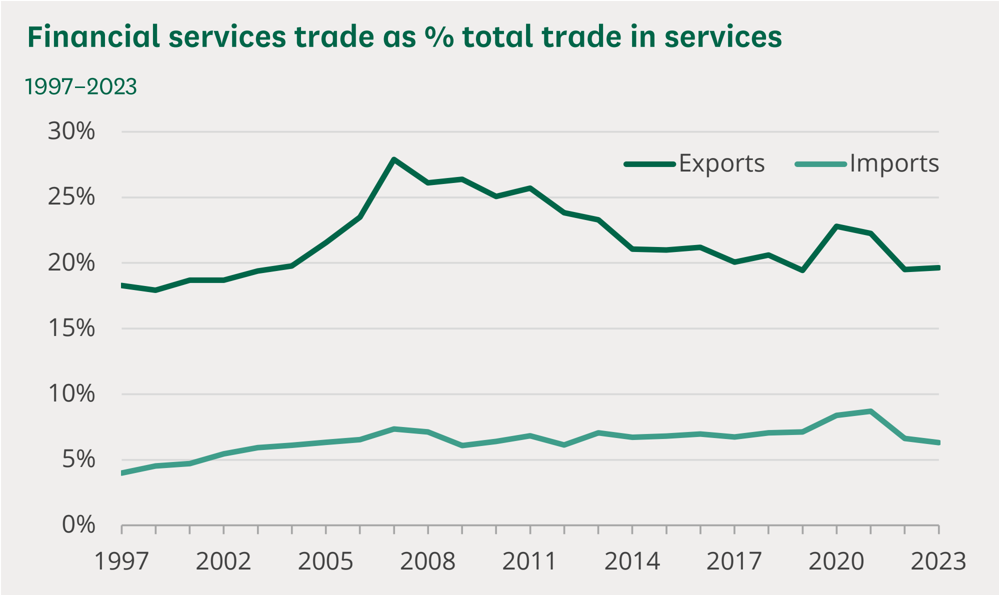
£ billions, real terms (2022 prices)



Source: ONS series S2FP and S2FQ

Financial services exports as a proportion of all services exports has also fallen since 2007, shown in the chart below.

Financial services made up 28% of all UK service exports in 2007, falling to 20% in 2023. Financial services made up 7% of all service imports in 2007 and 6% in 2023.[46]



Source: ONS, series FJPK, FJRE, KTMQ and KTMR

4.2 Exports by country

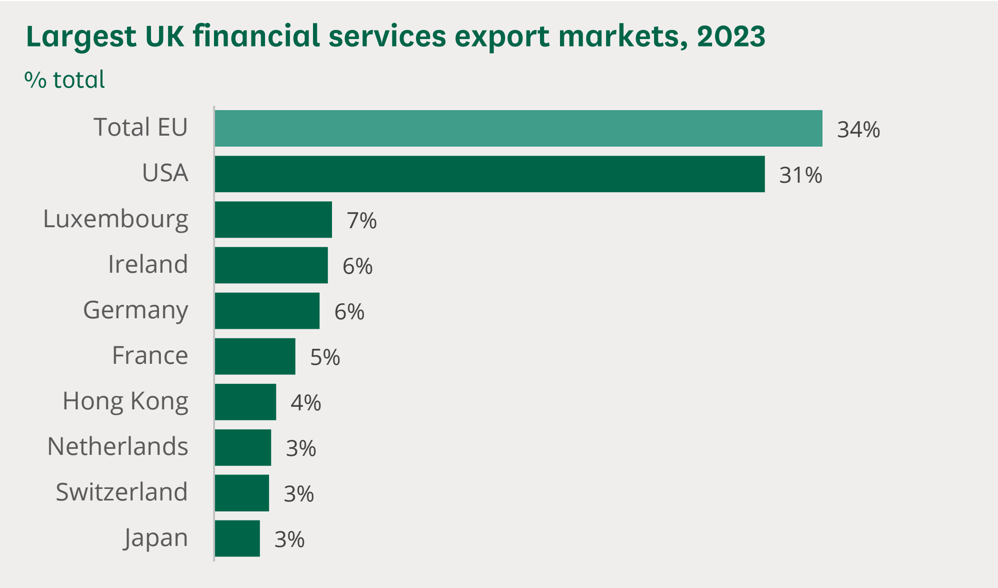
Taken as a bloc, the EU is the UK's largest export market for financial services, with exports of £32 billion, 34% of UK financial services exports in 2023.[47]

UK financial services exports to the EU are concentrated on a small number of countries – combined, Luxembourg, Ireland, France, the Netherlands, and Germany accounted for 78% of UK financial services exports to the EU. Luxembourg was the largest of these, accounting for just under a fifth of UK financial services exports to the EU in 2023.

Looking at individual countries, the USA is the UK's largest export market for financial services, with exports of £29 billion, 31% of UK financial services exports in 2023.

46 ONS, UK trade in services: service type by partner country

47 The data in this section is sourced from the ONS, Pink Book 2024, chapter 9 and UK trade in services: service type by partner country (25 October 2024).



Source: ONS, Pink Book 2024

Change in the UK's trade with the EU

While the EU is the UK's largest export market for financial services, UK trade in financial services with EU countries changed significantly between 2017 and 2023, both in cash terms and as a proportion of all financial services exports.

In 2017, the EU accounted for 40% of UK financial services exports, falling to 32% in 2022, before increasing to 34% in 2023. The value of UK financial services exports to the EU also fell over this period, from £25 billion in 2017 to £24 billion in 2021, before increasing in both 2022 and 2023.

The fall in exports to the EU was most pronounced between 2020 and 2021, when the value of UK financial services exports to the EU fell by 3% in cash terms (exports to the rest of the world increased by 10% between 2020 and 2021). This fall in the value of financial services exports to the EU is likely to be at least partly a result of the end of the Brexit transition period in January 2020, with the UK-EU Trade and Cooperation Agreement (TCA) including limited provision for access in financial services.[48] UK financial service providers no longer have the automatic right to offer services across the EU and must comply with the rules of individual EU countries as they no longer benefit from passporting rules, where authorisations issued by one EU country allow for access across the whole single market.[49] The Library briefing The UK-EU trade deal: financial services explains the deal's provisions on financial services and its impact.

Over this period (2017 to 2023), there has also been a change in the EU countries which the UK exports financial services to. Compared to 2017, UK

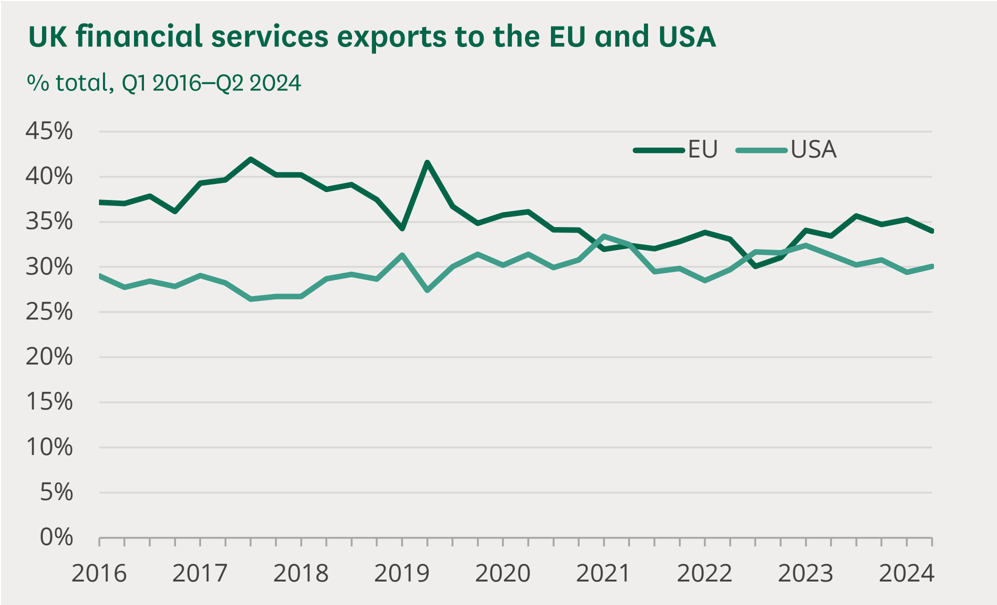
48 ONS, The impacts of EU exit and coronavirus (COVID-19) on UK trade in services: November 2021, 22 November 2021; UK/EU and EAEC: Trade and Cooperation Agreement [TS No.8/2021].

49 European Commission, Questions & Answers: EU-UK Trade and Cooperation Agreement, 24 December 2021

exports of financial services to the Netherlands were 38% lower. Over the same period, the value of financial services exports to Luxembourg increased by 119% in cash terms, while exports to Ireland increased by 70%.

UK financial services exports have also seen growth to non-EU countries, in particular to a small number of high value export markets, including the USA, Switzerland, Canada, Hong Kong and Singapore. Between 2017 and 2023, UK financial services exports to these countries increased by 78% in cash terms, compared to 29% for the EU.

The USA became the UK's largest export market for financial services in the first two quarters of 2021 and final two quarters of 2022, ahead of the EU, as shown in the chart below. The EU has returned to being the UK's single largest export market for financial services since Q1 2023.



Source: ONS, UK trade in services: service type by partner country

4.3 Imports by country

There has also been a gradual change in the countries from which the UK imports financial services, with a decline in imports from the EU and an increase in non-EU imports, particularly from the USA.

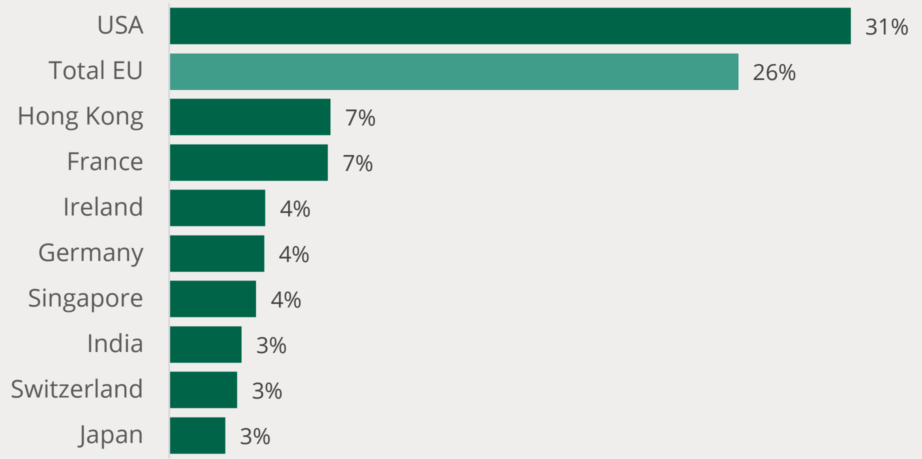
The USA is the UK's largest source of imported financial services, with imports of £6 billion in 2023, 31% of all UK financial services imports.[50] Financial service imports from the EU were worth just under £5 billion, equal to 26% of UK financial service imports. Financial service imports from the EU were concentrated from a small number of countries - France, Germany and

[50] The data in this section is sourced from the ONS, Pink Book 2024, chapter 9 and UK trade in services: service type by partner country (25 October 2024).

Ireland combined accounted for 61% of UK financial service imports from the EU in 2023, with France accounting for the largest share.

Largest sources of financial services imports, 2023

% total

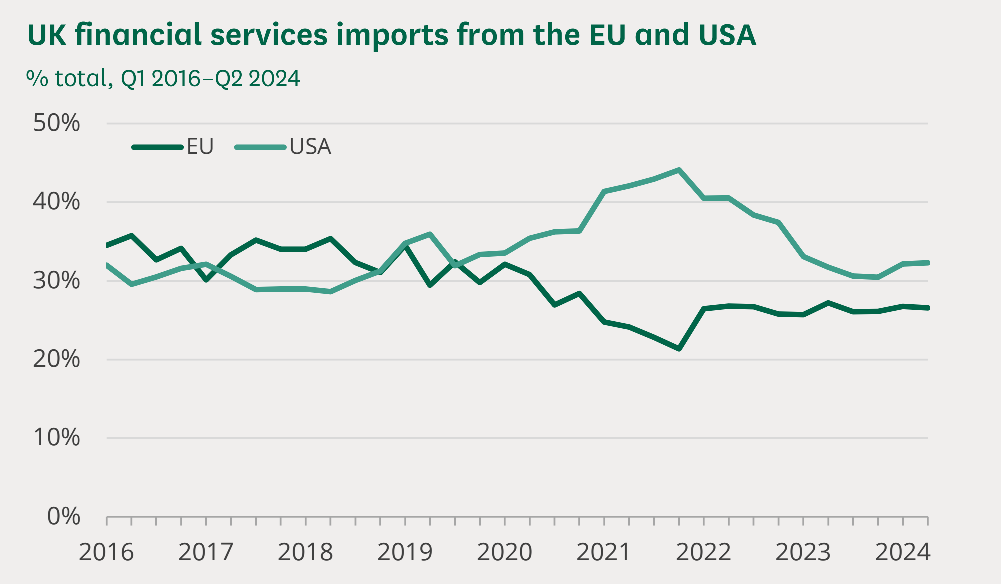


Source: ONS, UK trade in services: service type by partner country

In 2017, the EU accounted for 33% of UK financial services imports, though by 2023, this had fallen to 26%. The USA went from accounting for 30% of UK financial services imports in 2017 to 43% in 2021 and 39% in 2022, before falling to 31% in 2023.

In cash terms, the value of UK financial services imports from the EU were 14% higher in 2023 than in 2017, while the value of financial services imports from the USA were 51% higher.

The USA surpassed the EU as the UK's largest source of imported financial services in 2019 (shown in the chart below), and has remained ahead ever since, though the gap narrowed substantially in the second half of 2023 and first quarter of 2024.



Source: ONS, UK trade in services: service type by partner country

5 Taxation of the financial services industry

His Majesty's Revenue and Customs (HMRC) publishes details of receipts from the banking sector including from income tax, national insurance contributions, corporation tax and banking sector specific taxes.[51]

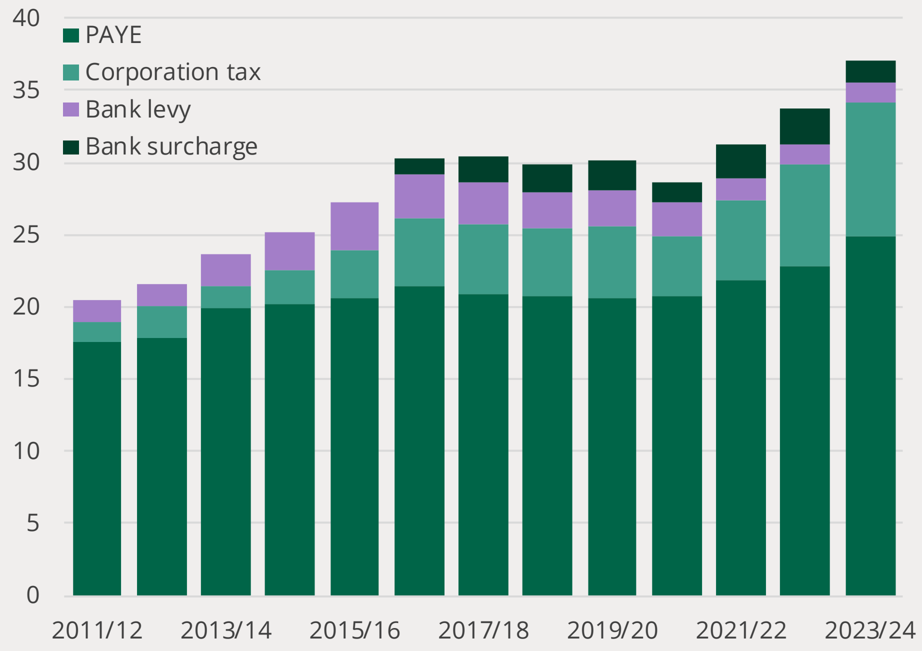
In 2023/24, these taxes raised £37.1 billion, 3.5% of all taxes collected that year.[52] The majority of this was from pay as you earn (PAYE) receipts (income tax and national insurance) which raised £24.9 billion. Corporation tax raised £9.3 billion and the bank levy raised £1.4 billion. The bank surcharge was introduced in January 2016; it raised £1.5 billion in 2023/24.

The bank levy is an annual charge on certain balance sheet liabilities and equity of banks and building societies, such as any outstanding loans or interest payments owed.[53] The bank surcharge is a corporation tax surcharge (paid in addition to corporation tax) applied to the profits of banking companies.[54] The Library briefing paper, Taxation of banking, provides further discussion.

51 HMRC, PAYE and Corporate Tax receipts from the banking sector (2020), October 2023.
52 Based on National Accounts Taxes. Office for Budget Responsibility, Public finances databank, October 2024, series GCSU.
53 OBR, Bank levy [accessed 13 November 2024].
54 HMRC, Amendments to the surcharge on banking companies, 27 October 2021.

Income tax and national insurance comprise the majority of tax receipts from the banking sector

UK tax receipts from the banking sector, £ billion



Source: HMRC, PAYE and Corporate Tax receipts from the banking sector (2024)

The City of London Corporation publishes estimates of financial sector tax receipts.[55] These figures are estimates largely based on a survey of 52 financial services companies conducted by PricewaterhouseCoopers (PwC).

The PwC research uses a broader measure of tax contributions compared to the HMRC figures. As well as income taxes, national insurance contributions and corporation taxes, PwC includes VAT, business rates and other taxes. The PwC survey also includes insurance companies, whereas the HMRC figures above only cover the banking sector.

The PwC estimates include both taxes paid by the sector itself (such as corporation tax and business rates) and taxes collected by the sector on behalf of the government, such as income tax and insurance premium tax, for example, which are paid by employees and consumers respectively.

The PwC research indicates that the financial sector contributed £79.3 billion in taxes in the year to March 2023, 9% of total government receipts in 2022/23.[56]

[55] City of London Corporation and PwC, Total tax contribution of UK financial services (PDF), May 2024

[56] City of London Corporation and PwC, Total tax contribution of UK financial services (PDF), May 2024.

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