Economy Committee – Tuesday 11 October 2016

Transcript of Item 5 – The Impact of the EU Exit on Financial Services

Fiona Twycross AM (Chair): That brings us to today's main item, a discussion about the impact of the European Union (EU) exit on financial services and small and medium enterprises (SMEs) in London. This will be a two-part discussion. Can I please welcome our first panel of guests for today who will be focusing on financial services. We have Professor Niamh Moloney from the London School of Economics; Jayn-Anne Gadhia, Chief Executive Officer, Virgin Money; and Miles Celic, Chief Executive of TheCityUK. We really appreciate you all coming along today.

I have a few questions to kick off with, then various Members have specific areas that we will be focusing on but others may come in if they have any supplementaries. I wondered if I could start by asking Miles initially how firms in the financial sector are responding to the changed outlook for the United Kingdom (UK) economy following the EU referendum vote.

Miles Celic (Chief Executive, TheCityUK): It is important to bear in mind that we are still in the EU. Economic structures that have been built around us remain the same. The final shape and impact that this is going to have on the UK economy - and, indeed, on the European economy - is going to depend upon the final shape of the long-term arrangements between the UK and the remaining 27 members of the EU. Certainly, in the conversations we have been having with our members, what people are looking for is clarity and stability in terms of what the broad shape will be.

There are five priorities that we have identified for the negotiation process. I will just briefly summarise what those are. The first is we need to deliver clarity and stability; that any exit is orderly, that it is cordial and builds a clear framework for future relations between the UK and the remaining 27 countries. The second is that we defend the UK's pre-eminent position in financial and related professional services. This is a leading financial services centre, one of arguably only two in the world. We need to continue to grow competition and to continue to grow innovation. Therefore, any relationship with the EU - and the policy framework going forward - needs to defend that. The third is that the exit we map out maintains access - as close as possible to the current circumstances that we have - that will minimise disruption and safeguard future relations with the EU. That will require appropriate moves on transitionals, on preserving the interconnected ecosystem that exists in London and also in the rest of the UK financial and related professional services industry. Fourthly, that we move quickly to advance trade deals with the rest of the world and investment deals, that we identify what the independent UK trade and investment policy looks like. Fifthly, and critically over the long term, we need to develop a deeper partnership than we have at the moment between government regulators and industry. This is an opportunity to shape what we want from this sector and what the sector can contribute to the long-term success of the UK.

Fiona Twycross AM (Chair): Thank you. What do you feel the sector's major concerns are? What opportunities can it capitalise on specifically?

Miles Celic (Chief Executive, TheCityUK): A major concern that I would identify would be the nature of the future relationship with the single market. The closer that can be to the current circumstances the better.

In terms of opportunities, we have just commissioned a longer-term piece of work that we hope will report early next year. That will look at the opportunities for the UK financial and related professional services industry and also what it can do, as I mentioned earlier, to contribute to the success of the UK long-term. In terms of immediate reactions to that question there is the opportunity to look beyond Europe. There are markets that we already have close relationships with in this industry such as the United States (US), China increasingly, Japan, and India is a huge opportunity. Also six of the ten fastest growing economies in the world are in Africa. There are British companies that have made inroads into those markets but there is more that could be done. The same for Latin America, parts of the Association of Southeast Asian Nations [ASEAN] and elsewhere. That would require an investment into UK Trade & Investment (UKTI), the British Diplomatic Service and so on to help drive that.

There is also a case for looking at what can be done in terms of regulation that promotes the socio-economic benefits that the industry provides. Looking at some of the major public policy challenges that the UK and, indeed, Europe face over the next 20 years - ageing population, infrastructure renewal, competitiveness and disruptive technological change - there is a role for financial services in all of those in the proper regulatory parameters and enabling around all of that. Also there are things we could do to look around the rest of the world. I am not saying that we adopt as a template and simply take over and impose on London some of the free trade zones that we have seen around the world, but there may well be things that happen in those parts of world - be they in Dubai, Shanghai or elsewhere - that offer pointers for solutions we might want to examine.

Fiona Twycross AM (Chair): Do you expect any firms to leave London? That is one of the things that came up before the vote. Is it still possible or probable that we might see firms leaving?

Miles Celic (Chief Executive, TheCityUK): A lot of this is going to depend on the final shape of the relationship between the UK and the EU. There has been media coverage of this. As any responsible firm would, they will look at this, track it carefully and they will make contingency plans. The sooner we have some clarity the better because otherwise firms may feel that they will be in an environment where they are lacking key information. Ultimately that just depends on the nature of the relationship.

We commissioned Oliver Wyman [Global Management Consultancy] to do an independent study of this that was released last week. If you get a point which is essentially just short of European Economic Area membership, the impact on the UK financial and related professional services ecosystem is actually relatively minor. If you get to a point where you are essentially operating on World Trade Organisation rules, it can be quite significant. It will really depend on which part of that spectrum you end up on.

Fiona Twycross AM (Chair): OK, thank you.

Caroline Russell AM: Now we are going to be looking at passporting and financial regulation. These are questions I would like all three of you to respond to. The first question is what are the opportunities and risks of losing passporting rights?

Professor Niamh Moloney (Professor of Law, London School of Economics): If I start perhaps with the risk and then go to the opportunities, the foundation here is that financial services are a highly, highly regulated sector, one of the most regulated of the modern economy. As firms in any section of the globe move cross-border, they will be facing costs in terms of standards. The benefit of the passport is that under the European arrangements you were regulated once. You were supervised once in your home jurisdiction. Because the home jurisdiction is part of the EU and follows EU law, that sets up the passport so then you can

move cross-border on the basis of a single authorisation or a single licence. The other benefit of the passport is that it gives firms a free choice more or less as to how they organise their business. Do they want to use a branch, for example, or simply use services online, or set up a subsidiary? Under the EU single market rules, that choice is left to the firm in terms of how they organise themselves. A third benefit is that it is a very clear legal framework. A firm has certainty in terms of the rules and supervisory structures it will face as it moves cross-border. The flipside is that it has legal protections. If it faces an unexpected set of burdens it does not think are appropriate, it has recourse under European law to protect itself if it sees there is some form of discrimination. It is a legal framework allowing firms to operate in a highly regulated sector cross-border on the basis of a single set of rules and authorisation.

On the opportunity side, the reason why that works in a highly regulated sector with huge public interest - financial stability, consumer protection and so on - is because of the single rulebook. That is, if you like, the price of the passport. All the currently 28 member states agreed to a single platform of rules. As everybody agrees to those rules, we allow this cross-border movement, this liberalisation. If the passport falls away, then the single rulebook technically falls away. That, in principle, leaves the UK with greater autonomy as to how it sets its regulatory framework, although there are constraints on that, particularly with new rules, for example, with respect to things like crowdfunding, FinTech and new ways of doing finance. Perhaps opportunities open up there. In terms of negotiating and setting up international relationships, there will be a new way of doing that. It will be happening outside the EU so the UK will be able to develop its own mechanism for organising those relationships.

Caroline Russell AM: Are there any risks?

Professor Niamh Moloney (Professor of Law, London School of Economics): The risks are first of all losing ease of access to the 27, losing ease of access to that deep single market and to the business opportunities that it represented. Possibly another risk that is worth noting in this context - it might sound a little technical - is losing the non-discrimination principle. The reason I mention that is the importance of trading in Europe, business in euro and trading in the euro currency. Under the current set of single market rules, there are treaty rules that prevent discrimination against any EU member state on the grounds of currency. There is perhaps somewhat of a legal risk at least that the EU could try legally to move business in the euro into the EU 27 and outside the UK. As the UK will be outside the single market rules, various legal protections would no longer be available. That is potentially a risk. It is a speculative risk.

Jayne-Anne Gadhia (Chief Executive, Virgin Money): I sit here representing, thankfully, a UK-only retail bank. From my perspective, passporting does not affect my business. That is an interesting point as we look as positively as possible to the future. For UK customers in a UK retail bank, this is a real opportunity for customers to have more competition, get more innovative products focused in the UK with perhaps - pricing is quite competitive at the moment - sharper pricing. As we look forward, we do need to distinguish the difference between a sterling-based, UK-only retail bank and the more European and global players who, of course, have an enormous impact on financial stability, the profitability that is being brought to London and into the country beyond. In terms of my own position in it, for me it is a real opportunity because I do not have to agree about the passporting challenge. My business, and others, will continue in a similar way.

As you will know, ring-fencing of straightforward UK retail banks is one of the recommendations that is being adopted in order to make banking safer in the UK. Those ring-fenced banks will also be in a position, broadly, to be able to benefit from the fact that they do not have to participate in the complexity of the future. There are some good things - being a particular type of bank - as Brexit unfolds in not having that complexity.

If I was speaking more broadly, of course, I would say that for the benefit of London passporting is very important. As Miles has said previously, so much income depends on the fact that our much bigger banks are able to trade openly with the EU. To be very clear, there will be opportunity for very focused UK retail banks to give a better service, better products and more innovative solutions for customers.

Regulation is an important point. As I look towards passporting and think about the requirement to maintain equivalence of regulation in order for the UK financial services companies to have their passports, that is a double-edged sword. Despite the fact that many bankers complain about regulation, the areas that we complain about tend to be at the margins. The UK has done very well in participating in the development, post financial crisis, of regulation that has brought very positive stability to the financial system. Despite the fact that some people say there is potential benefit for the future of lighter regulation, for the good of the financial system in the UK - whether or not we want equivalence, whether or not we want passporting - we would throw away regulation at our peril. We need to think very hard about how to manage that positively for the future because most of it is good.

Miles Celic (Chief Executive, TheCityUK): I would agree with what my two colleagues have said. I will just add three things very briefly. The first is we use passporting in the same way that people sometimes use terms like "hard Brexit" and "soft Brexit". The risk is that it can mean different things to different people. The important thing to bear in mind is there is no single European passport as such. There are a multiplicity of passports sat within different directives and so on. If we are not careful we may find that we have a deal on one form of passport but we might not have it on another form of passport. That is not entirely likely but it is just something to be conscious of.

The issue around passporting and equivalence as well is that it carries a degree of risk associated with it. To take equivalence, for instance, it is essentially a static determination, a static decision made in a dynamic environment. Regulations will continue to change. A new directive will come through, whatever it may be. You may find, if you are not careful, that you may be equivalent on day one but you are not equivalent on day two or day three, figuratively speaking. Otherwise you simply keep tracking what is going on elsewhere unless you get to a point where it is accepted - I will come back to this in a moment - that your regulatory regime is equivalent in itself to the regime in Europe or wherever it may be.

The other thing I would just say is that sometimes a decision on equivalence can be not a purely technical decision. There is often a political dynamic to that decision. It is just one that we need to be conscious of as we look to the future.

In terms of the regulatory environment, I absolutely echo what my colleagues have said. TheCityUK's perspective and position is that there is no virtue in some sort of regulatory race to the bottom. London's future as an international financial centre will not be built on a sense of it being a lighter touch or less regulated or the sort of place where you go to arbitrage regulation. That world has largely moved on. Standards are increasingly being set at an international level. The other element is that people increasingly will be looking for the highest standards of regulation. That is a real advantage for London. Also we are a centre of regulatory expertise. We have some of the best regulators and supervisors in the world, partly because we are one of the two major international financial centres. There may be an issue about how we utilise regulation to drive more socioeconomic benefit from the sector, or to drive competition or whatever it may be. There is no virtue in some kind of regulatory race to the bottom.

Andrew Dismore AM: I was going to ask about the change in regulation. Obviously throughout the EU we have no control over what the EU may do in terms of changing regulation, whether they make it tougher or weaker. You have already dealt with that point. There may be certain changes to our disadvantage.

Are there any non-EU countries that have passporting rights already?

Miles Celic (Chief Executive, TheCityUK): If you look at Markets in Financial Instruments Directive II, there are examples within that where you can have passporting from the US into the EU. That comes in in 2018. Solvency II also takes an example of equivalence where parts of the risk-based capital regime that American insurers are regulated under takes a slightly different approach to the way that Solvency II - which is the European insurers' regulation - operates. The way that was characterised was essentially that they take two different routes but arrive at the same point. There was an acceptance of essentially equivalence on that.

Andrew Dismore AM: Do US financial markets have access, or is it bits and pieces?

Miles Celic (Chief Executive, TheCityUK): It is parts. It is not a blanket that the entire US is considered equivalent on everything it does.

Andrew Dismore AM: Is the regulatory regime as a whole in the US insufficient to give full passporting rights?

Miles Celic (Chief Executive, TheCityUK): I would not use the term "insufficient". It is more that individual activities are looked at rather than blanket determination. That will be the same with the UK.

Andrew Dismore AM: Are some bits are passported and other bits are not?

Miles Celic (Chief Executive, TheCityUK): It will obviously depend on the final nature of the relationship that is negotiated. What I would have thought is more likely is that you have individual elements of activity that are judged as to whether or not they are deemed to be equivalent or not.

Caroline Russell AM: The final question is for Niamh. We have started to touch on it, but what effect will leaving the EU have on UK financial regulation?

Professor Niamh Moloney (Professor of Law, London School of Economics): I very much would agree with my colleague. In principle it opens up the opportunity to look at what the UK regulatory system looks like. In practice, since the financial crisis the whole global mood on regulation is that regulation is good and we need it for financial stability. The language we hear in international affairs is about convergence, co-operation, support and cross-border opening of information. You do not hear the language of competition so much. One of the reasons for that, of course, is that - as Miles mentioned - an awful lot of rules are coming from what are called the international standard centre. For example, the Basel Committee on Banking. There is a group called International Organisation of Securities Commissions which does a similar job in securities markets. These rules feed into the EU process where they are turned into EU law. Of course, the UK is a big player in all of these standard centres so it would have an obligation to follow those rules. The environment is very much one of keeping internationally everybody up at a high standard. It would be surprising if there was going to be a change there, not least because central bankers keep a very close eye on regulation nowadays. There is a very close focus on stability and high standards. The sense of competing to some notional bottom is not so much out there.

I very much echo what my colleagues have said as well about the UK as a centre of excellence. If you look at EU law over the last 20 years, the UK has been a really, really important expert and reasonable influence on how EU law has developed. It has this huge expertise and credibility internationally that it can continue to use. I suspect it will be more in the direction of refining, improving and dealing with new challenges rather than dismantling what may be there.

Caroline Russell AM: That is exactly what I was going to say. If there is an opportunity for the UK to write its own financial rules, that could be to be more stable, more moral or ethical as well in terms of the kind of activity that we encourage in our banking system.

Professor Niamh Moloney (Professor of Law, London School of Economics): That is absolutely right. For example, there are areas like corporate social responsibility, aspects of FinTech and there is still a lot of work to do in the consumer protection space. There is a really exciting potential for the UK to be a leader in these issues and encouraging a race to the top internationally.

Caroline Russell AM: Thank you.

Andrew Dismore AM: You were talking about trading in Europe. What will happen to euro clearance?

Professor Niamh Moloney (Professor of Law, London School of Economics): In theory, as a matter of law, it should remain the same. Going to the point colleagues have made, the UK is a huge centre of excellence. It has very strong regulation that would remain in place, a really deep financial market and very strong industry incentives for the clearing [processes] all to remain in the UK. There are huge practical reasons for it to remain in place, such as the long-standing experience here. I am simply making the political point that there may be a risk because it is the euro currency. We are seeing signs that the euro area is pushing more into the centre, we have banking union and more sharing of regulation in the euro area. There might be, perhaps, political interest in keeping euro business in the euro area. It is an open question whether you could lose the role to do so. Certainly right now you could not as there are non-discrimination policies. It is out there as a potential environmental risk.

Andrew Dismore AM: Whose decision would it be that euro clearance should move into the eurozone? Would it be a political decision, would it be for the European Central Bank (ECB), or would it be for individual businesses?

Professor Niamh Moloney (Professor of Law, London School of Economics): Famously the ECB a few years ago produced a policy document where it required certain big infrastructures that were clearing euro instruments to be based in the euro area. The UK challenged that before the Court of Justice and won. You can see how the ECB has tried to do that and got pushed back for very good legal reasons.

My colleagues will have a better feel for this, but given the depth of expertise and experience in the UK it is hard to see a market reason for pushing back against euro business in the UK. Politically so much is going to depend on the shape of the elections over the next year or two. The key signal will be whether there will be a push more into the centre with the euro area; will be there more sharing of bank risk, will there be more interest in common European structures like banking union? That could shape how things develop with respect to euro issues.

Miles Celic (Chief Executive, TheCityUK): I would agree very much with what Niamh said. I would just add that some of the practical elements of this are sometimes a little more difficult than they appear at first

glance. Often you find that a lot of these trades are bundled. You will have various currencies all bundled together so extracting just one element of that is harder than it might be. I very much agree with Niamh. The expertise that exists here, the depth that exists here and the compression factors that you get here mean it is more economic to do it in a centre like London than it would be to simply take that out and try to replicate it somewhere else. That would bring with it various demands in terms of costs and in terms of regulatory and supervisory requirements. This is a significant undertaking. It is worth bearing in mind that London is not just an asset for the UK; it is a strategic asset for the EU in terms of the business that is done here. In my own view there would need to be a very clear reason why that would be better done somewhere else than in London.

Jayne-Anne Gadhia (Chief Executive, Virgin Money): I would add only that I presume to maintain euro dealing the companies that do it will need the passport. It is bit of a circular point.

Andrew Dismore AM: It is an exchange. I want to ask you about migrants in financial services. Something like 22% of workers are from overseas and virtually about half of those are EU nationals. If there are restrictions on inward migration, what impacts will that have on your businesses?

Jayne-Anne Gadhia (Chief Executive, Virgin Money): In terms of our ability to grow Virgin Money as a UK retail bank, frankly very little. Because of the population that we recruit from at the moment, of course, we have European nationals that work in Virgin Money. We very much hope we will get clarity soon about how their futures are going to unfold. If that access were to be limited, then, frankly there is definitely - in our relatively straightforward business - the talent pool in the UK sufficient to fill our needs.

However, for financial services the employment of skilled, talented and innovative people - at all levels in the workforce across all the banks, simple and complicated - is really important. We have to be really sure that, in whatever controls need to be put in place to satisfy the demands of the referendum outcome, we do not block ourselves off to enabling talent to come to all industries, not just financial services. What does that mean? Does that mean visas? Does that mean that particular experience and skills automatically mean that people who currently live and work in Europe can come to the UK post-Brexit? I hope so because it is important to have access to that talent and to those skills. It is also important, if we are going to continue to have a place in the global industry, that we maintain diversity of thought, experience and outlook if we are going to stay competitive for the future. It is very important to find a way for appropriately diverse workforces to continue to work in financial services and beyond.

Miles Celic (Chief Executive, TheCityUK): I echo that. From TheCityUK's perspective, we would like to see as close as possible a continuation of the ability to access high-talent skills in workers from Europe and, indeed, from elsewhere. As Jayne-Anne quite rightly said, this is about more than just the EU. As you pointed out yourself, there are roughly 22% of people in the City of London and the London ecosystem who are non-British. It is particularly marked in some parts of the industry, such as FinTech. To give a counter-example - I do not have the statistics for London to hand - from memory in Silicon Valley 42% of people who set up technology companies were born outside of the US. I think 44 or 45% of the people who work in them were born outside of the US. This is a very particular set of skills that are very difficult to replicate. That said, what we probably ought to be looking at is some sort of comprehensive skills and talent strategy for the UK, some of which will be about finding the best skills in the world and bringing them to the UK. The UK, therefore, will be more competitive and will benefit from that.

A lot of it will also be about intensifying our own investment in skills and looking to what jurisdictions in other parts of the world have done. Sometimes with very strict immigration controls - Tel Aviv is an example of this - the Government is extremely good at identifying in universities, in government and elsewhere some of the

technological skills that they have within the state sector and then providing a wide path for them to go into the business sector if that is what they are keen to do. There is a lot we can learn from looking at best practice internationally in this space. The underlying element is we need to be able to access the sort of skills that the UK is going to need to be successful through the rest of this century.

Andrew Dismore AM: The [City of London] Corporation is doing quite a lot of work on the so-called London visa or London work permit. What are your views about that?

Miles Celic (Chief Executive, TheCityUK): I have spoken to Mark Boleat [Chairman, Policy and Resources Committee, City of London Corporation] about this. It is a useful and helpful contribution to the debate around this. London has a particular set of demands and needs. Anything that we can do to look at that and to highlight that need is very helpful.

Professor Niamh Moloney (Professor of Law, London School of Economics): I work in a university, but in terms of thinking about financial services, the only point I would add to those of my colleagues is because of the passport - once you have your base in the EU, off you go - the UK has attracted a lot of global groups. It will be important to allow these global groups to maintain their ability to move staff globally, in and out of Singapore, back to London and so on. That feeds into a wider story about the UK in an international market. To give incentives, whether through visas, migrant policies or whatever, to keep the global groups happy in the UK. They can then use their networks of deep expertise globally to, as Miles mentioned, keep that expertise in the UK as well because they are already here. It is worth reinforcing the value of being in the UK.

Miles Celic (Chief Executive, TheCityUK): If I might just add to my answer, one of the concerns I personally have is that we need to make sure we do not end up with a migration system that simply works for people who have jobs and job offers. It has to look at skills as well. An example that was made - I thought quite powerfully - to me was the concept of the talented coder from eastern or central Europe who comes over without necessarily a job offer in London but sets up around Silicon Roundabout or Shoreditch. They come up with a killer app, an algorithm that makes a huge difference, and it grows and so on. It is about identifying a skills-based system as well as one that is simply about moving people around into individual jobs that already exist.

Andrew Dismore AM: Has uncertainty around the EU had an impact on the jobs market? The Institute for Public Policy Research (IPPR) suggests there has been a 13.6% downturn in jobs advertised in financial services over the summer. Have you experienced that? The corollary of that, of course, is whether people from the EU now more reluctant to apply for jobs in the UK.

Miles Celic (Chief Executive, TheCityUK): I am happy to take the first punt on that. That is only one statistic. I have not been able to drill down into it. My instinct is to be wary about one data point at the best of times. Also I do not know how much of that would be related to the referendum and how much of it would be related to other factors that are going on. At this stage my own view is it is a little too early to really get a sense if this has had a significant impact on the jobs market in financial and related professional services.

Andrew Dismore AM: There are two aspects to the question. One is, has the number of people being hired absolutely gone down? The other aspect is, are people from the EU less likely, or more reluctant, to apply for UK jobs?

Miles Celic (Chief Executive, TheCityUK): My own view is that it is too early to say either of those, to be honest.

Jayne-Anne Gadhia (Chief Executive, Virgin Money): I have a slightly different view, for the first time, from my colleagues. All banks have reacted to the reduction in base rate - which obviously is a consequence of the Brexit vote - by locking down their cost base. Virgin Money is a good example. In managing our costs, we have decided to hold our recruitment flat. I am not alone in that. When I read analysts' analyses of other banks, most people are looking at cost control as a way of managing uncertainty. That is not to say it is going to last forever. As we start to work out what the future holds, I suspect everybody is managing their costs and that will have a knock-on impact on employment.

The second thing I would say is that while I cannot comment specifically - we do not have European nationals applying for jobs at Virgin Money in particular - in our 3,000 workforce we have 50 or 60 European workers. We have people that are married - Emily, who is here with me today, her husband is Irish. People are already saying, "Are we going to be welcome here or will we have to think about moving back in the future?" If I were to extrapolate from that, at the moment it might be difficult for Europeans to think about coming to the UK, again because of uncertainty and not because of fear of a certain thing that is going to happen. I do think it is having an impact on the jobs market.

Andrew Dismore AM: You have the Government also speaking with two voices. You have the Mayor being very positive in terms of trying to be welcoming to EU nationals. You have the Home Secretary saying, "Start putting in forms about how many you have". It is quite a mixed message going out, which I presume feeds that. Presumably the impact on bank share prices also had an impact on your recruitment? I do not know if it affected Virgin --

Jayne-Anne Gadhia (Chief Executive, Virgin Money): We all took a big hit as a result of the vote, to be honest. From Virgin Money's perspective we recovered very sharply but the whole sector was re-rated. That does not particularly mean people think differently about being employed by the sector. Nevertheless, it does mean that confidence is a little bit - of course, in this period of uncertainty - lower than it was previously.

Professor Niamh Moloney (Professor of Law, London School of Economics): I have probably nothing to add. I would agree with everything that has been said. Certainly this notion of certainty and, "What is my status?" is a very natural human sense. "Where will I be positioned? What about my mortgage? What about my ability to visit my parents?" It all sounds at some level sentimental but is actually fairly profound. "What is my position in this society?" The sooner there is clarity on that the better.

Fiona Twycross AM (Chair): Thank you.

Shaun Bailey AM: What can London do to retain its position as a centre for global finance? Are there opportunities outside of the EU markets that could cover any change in income, any shortfall?

Miles Celic (Chief Executive, TheCityUK): As I have said one key element is about making sure we are as close as possible to the access we have at present to the European market as a base. Europe is in many ways a domestic market for London. That has predated the EU and it will, hopefully, continue after the EU.

In terms of some of the markets that we have been talking about, Asia is an enormously fast-growing market. Africa is catching up significantly. There are significant growth opportunities in Latin America. One of the big advantages for London is that it is a services centre of excellence. We have financial and related professional services but London is one of the service motors of the global economy. In any development curve what you tend to see is that people buy manufacturing first. They go for the manufactured products, which is a huge

advantage if you have the manufacturing sector that Germany has for instance. The higher you go up the development curve, the more people go for services. That is an enormous advantage for the UK. They tend to consume those services at a greater volume and in a greater value the further up that you go. Long-term, there are real opportunities in the global growth that you are seeing in Asia, Africa and elsewhere for London, and for the UK industry overall, because two-thirds of employment in this sector is outside London. That will also need an appropriately designed independent UK trade and investment strategy. That will also need - as I mentioned earlier - investment into things like UKTI and the diplomatic structure that we have outside the UK and outside the EU.

As I have mentioned FinTech is an enormous potential advantage for the UK. We are a centre of global expertise and innovation. Ernst & Young issued a report earlier this year that put London as the global capital for FinTech and one of the global capitals for technology. Berlin is very much trying to catch up. Silicon Valley is an enormous strongpoint. Tel Aviv is taking off to a significant extent. That talks of the need to bring the right skills to the UK and growing the right skills within the UK. There are other areas that we need to look at as well such as sharing our financing and so on. All of these are areas where the UK has made real inroads and can continue make real inroads.

Jayne-Anne Gadhia (Chief Executive, Virgin Money): I was going to make a point that somebody made to me yesterday: we should not forget the power of the English language. It is a simple thing to say but it does give us an advantage in maintaining our position globally because of it being the language of financial services and beyond. To your point about what can London do, we should not forget the fact that we have a common language, the financial services language. We have deep pools of expertise and the infrastructure that other countries want to facilitate the delivery of financial services. If we can make all three of those things sing out as a real benefit - rather than being an established norm - that is something we should really build on.

To your point, Miles, on FinTech I completely agree. We might come on to what the Mayor could do to help. Encouraging entrepreneurship in FinTech development, whatever that means, through educational support, skills support, maybe financial support and celebrating success are going to be really important for the future. It is already ripe to build from.

Miles Celic (Chief Executive, TheCityUK): As well as the power of the English language - which I completely agree with - is the power of English law as 50% of all contracts in the world are written in English law. That is an enormous advantage for the UK. We have a real depth of expertise and real prestige in terms of the legal services here. That could be something we could try to leverage more in the future.

Andrew Dismore AM: The point about English law is an important one, because that depends on mutual enforcement of judgments which we have automatically within the EU. If we do not get mutual enforcement of judgments as part of whatever Brexit deal there is, that starts to undermine our leading role in legal services as well.

Miles Celic (Chief Executive, TheCityUK): Contracts outside the EU are also written in English law.

Andrew Dismore AM: They are written in English law on the basis that a judgment of an English court on English law is enforceable throughout the EU.

Miles Celic (Chief Executive, TheCityUK): You can move a lot of that stuff into English law. For instance, one of the biggest competitors for London in this space is Singapore. The argument is you get English law at Singaporean prices. This is broader than just the EU. It is an international advantage for us. I absolutely take

this point, however, that this is about making sure we continue to have the access that we have to the European markets at the moment or try to get as close as we can.

Andrew Dismore AM: Having contracts in English law is useful because it can be enforced ultimately if something that goes wrong - that is the point - rather than when things go right. Most contracts never get anywhere near a court or enforcement. It is when things go wrong that you have a problem.

Miles Celic (Chief Executive, TheCityUK): This is one of the virtues of the English legal system. It is the ironclad system. Ideally you do not need to go the courts, but when you do it is seen that these are impartial courts, they are high quality and the standard of the lawyers and so on is, again, world class.

Andrew Dismore AM: Also enforceable through the EU.

Shaun Bailey AM: You alluded earlier on to how the Mayor can represent the financial sector. It seems to me that as a country we run the risk of talking down our negotiating position. Listening to you speak now, we are more intertwined, in a sense. People are not aware of how that aids our negotiating position. It is better for Europe to not mess us about politically. That could be part of how the Mayor sells it. Is it important not to offer policies and situations that are not deliverable? I hear about this London work visa. This, to me, sounds crazy because London is part of Britain. Could somebody elaborate on that for me, please? How would that even work?

Miles Celic (Chief Executive, TheCityUK): I am not close to the work that is being done on the London visa. It might be that Niamh knows more about this than I do but, as I understand it, there are examples internationally of places where you can have a slightly different visa in one part of the country than you have in another. As to how the mechanics of that would operate, I would need to look into that. As I said earlier, though, it is a useful contribution to the debate to have something that stresses - even if it is merely raising awareness of the fact - that London has particular skills requirements.

In terms of what the Mayor could do, I would have to say from TheCityUK point of view we have been really pleased by what the Mayor has been doing. He has been making exactly the right points in terms of the need for close access to the European market, for access to talent and to the ability for people to come here and work, and promoting London as a major international financial and services centre which is what it is. That has been a really good start. We are looking forward to continuing to work closely with the Mayor and the Greater London Authority on those issues.

Professor Niamh Moloney (Professor of Law, London School of Economics): I would very much reinforce that. One thing that is very important is that the City perspective is a clear voice on that in these negotiations. In some respects financial services can be esoteric, it can get caught up in notions of the financial crisis and what have you. Financial services are the lifeblood of the economy. They feed our pensions. They feed welfare. They feed life insurance. They feed how we all plan for the future. This sends a very clear voice on why this business of the City is important in its own right. It is very important to reinforce the imagination and energy of the City of London. For the last 30 years so many innovative developments that are now absolutely standard in financial services have come out of London. Things like venture capital for small companies and securitisation that makes it easier for banks ultimately to lend to smaller businesses. This plays to what Miles and Jayne-Anne are saying about this close relationship. The City has an ability to be the pipeline for the most fabulous financial products back into the EU. It is almost like this engine of innovation. To feed through those products it needs the easiest possible access to the European market. This clear and straightforward voice of the importance of financial services is a very welcome role for the Mayor.

Caroline Russell AM: There is the middle question I was going to be taking on this section. I think that flows on very beautifully actually. We have been hearing how important the financial services sector is for the UK economy. Does leaving the EU also represent an opportunity to rebalance both London and the UK's economy away from financial services? That might involve financial services helping with that. We were hearing about investment for small firms and things like that. Is there something that the City can be doing to help the UK economy to be strong and stable post-referendum?

Jayne-Anne Gadhia (Chief Executive, Virgin Money): Thinking about that question previously as a suggestion of rebalancing downwards. Rebalancing upwards is the right way to think about. In other words, let us not think about a shrinking financial services sector. Let us think about growing other sectors. Absolutely, Caroline, I agree with you that banks ought to be help with that. That is an exciting way to look forward. It does not happen overnight because we have been trying to do that as an economy for a very long time.

We should be focusing - as I know the Government and perhaps the Mayor too have been - on improving productivity in the UK. Despite the fact that we are the fifth or sixth largest economy our productivity falls way behind many of our competitors. That is for a number of reasons. I have done some work on gender equality. We know that if we get more women in the workforce - if we get more women into financial services - that, of course, improves productivity materially. We should continue to absolutely focus on that. From my own business's perspective, as a business that focuses a lot on the UK mortgage market - I know this is an easy thing to say - trying to solve the housing problem is obviously something that is going to create more jobs. It is going to improve productivity. I hope it is going to form part of our industrial strategy. That is important.

What is very important for London is having very clear investment programmes that are committed to and are delivered, despite Brexit, to make sure we continue to see economic growth that the banks can support. It will lift everything to rebalance rather than push anything down.

Miles Celic (Chief Executive, TheCityUK): I very much agree with that. We have a very successful financial and related professional services industry here in the UK. It is a strategic asset for Britain, and for Europe, as I have mentioned. Sometimes we do lose sight of the fact that we have also got a very successful higher manufacturing economy here as well. I think I am right in saying that it is roughly the same proportion of Gross Domestic Product (GDP). It is a case of making sure that Britain plays to its strengths, whatever those strengths may be.

Fiona Twycross AM (Chair): Thank you. We are almost coming to the end of this section. Thank you for your terrific contributions. I have a final question regarding whether you have any particular message you would like this Committee to convey back to the Mayor on this area?

Miles Celic (Chief Executive, TheCityUK): From my perspective it is to thank the Mayor for the efforts he has been making on behalf of London and of this industry since the referendum. As I said before, the key messages that he has been making are certainly very much in keeping with the key messages that TheCityUK has been making. As to what we are looking for, the key issues from the point of view of this industry are around making sure that we have an ongoing relationship with Europe that is a positive, constructive and forward-looking one and that starts in the best possible way.

Jayne-Anne Gadhia (Chief Executive, Virgin Money): I completely endorse all of that. I would only add to it let us remember the simple points as well as the complicated ones about how great it is to live here. I know the Mayor does that too but it is more important than ever to keep on making those points.

Professor Niamh Moloney (Professor of Law, London School of Economics): I completely agree with all of that. I would add in a small practical point. The longest possible transitional period in moving us from day one of outside the UK to what the arrangement is will really help businesses plan and get their business models in order. To the extent that is an important part of the negotiations that is worth mentioning.

Fiona Twycross AM (Chair): Thank you. Thank you so much to all of you for your contributions this afternoon.

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