EU exit and the financial services sector:

assessing uneven regional impacts across the UK

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Summary

- *This report explores the possible implications of the UK's departure from the EU's single market for financial services employment in towns and cities with significant clusters of financial services activity across the UK.*
- *It is, therefore, complementary to analysis that has already been conducted on the possible implications of leaving the single market for London's competitiveness as an international financial centre.*
- *It is very difficult to accurately assess the possible regional impacts of the UK's departure from the single market for the financial services sector because of uncertainties surrounding the future trading relationship between the UK and the EU that would ensue.*
- *To address this challenge, this report applies the experience of regional financial centres to the 2007-8 financial crisis, and research on the regional dimensions of other periods to financial services contraction, to explore the possible relative impacts of the UK's departure from the EU's single market on financial services employment across the UK.*
- *Data shows that regional financial centres are entering the uncertainty surrounding the UK's trading relationship for financial services in different positions. Some centres, particularly smaller towns and cities close to London and London itself, currently have employment levels higher than prior to the 2007-8 financial crisis. However, core cities have seen weaker growth in financial services employment since 2008.*
- *The estimates provided, and evidence from previous contractions in the financial services sector, suggest that the implications of leaving the single market on financial services employment will be different for different types of financial centres within the UK, exacerbating already differential growth rates.*
- *All financial centres, including London, are estimated to have a marked decline in financial services employment in the first year following a departure from the single market.*
- *In the six years following the UK's planned exit from the EU without single market access, it is estimated that London and smaller towns and cities clustered in the South of England will recover more rapidly than financial centres in the core cities in England, Scotland, Wales and Northern Ireland.*

1. Background: Brexit, the UK's financial services sector and the regions

Financial services are an important part of the UK's economy contributing £131.9bn in 2018 or 6.9% of the total.[1] The sector provides an important source of employment, particularly in London and the South East of England, as well as tax revenues. As a result, the sector has been identified as of 'especial importance to the UK' in relation to Brexit negotiations.[2]

The current size and shape of the UK's financial services sector is underpinned by the UK's current regulatory relationship with the EU. Of particular significance are regulations that mean that if a firm is authorised to undertake activities by the regulator of one EU member state, it can apply for a 'passport'. This passport allows the firm to conduct business throughout the EU without needed further authorisations. As a result 67 per cent of UK financial services (not including insurance) supplied to the EU are delivered cross border from a UK base.[3] The significance of this cross border supply of financial services (whereby services are exported into the rest of the EU from a base in the UK) reflects the significant liberalisation of services trade that has taken place within the EU single market. This differs from other free trade agreements in which a greater proportion of services trade is conducted through offices located within the customers' markets (for example, in the case of UK financial services, this would mean a British bank selling financial services to German customers from an office in Munich).

1.1 Single market departure and financial services

The announcement by Theresa May in January 2017 that the UK's future trading relationship with the EU after Brexit would not be based on continued single market membership has significant implications for the UK's financial services sector and its trading relationship with the EU. This has continued under the terms of the Brexit deal proposed by Boris Johnson in October 2019. This is because both of these proposed deals remove the possibility that current passporting arrangements, and the cross border supply of financial services that if facilitates, could continue. Moreover, existing EU FTAs, such as those with Canada and Japan do not recognise non EU professional qualifications universally within the EU as is the case now between the UK and the EU broadly speaking. This is important in labour markets such as those in financial and related professional services which are international in nature, including in the more recent growth in specialist technology employment within the fintech sector.[4] However, EU FTAs do typically seek to facilitate regulatory dialogue between the EU and third country regulators.

As a result, there is uncertainty as to the nature and implications of the UK's regulatory relationship with the EU for financial services, partly reflecting the fact that the UK will have to decide whether to converge, seek equivalence or diverge from EU regulations for financial services.

It seems likely that financial services firms based in the UK will need to rely on third party equivalence regimes with the EU after the UK leaves the single market. Under equivalence arrangements, the EU permits foreign financial firms market access it if believes that the regulatory arrangements in that third country are equivalent to, or closely aligned to, its own regulatory requirements. The EU is committed to completing its assessments to decide whether equivalence

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1 https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/januarytomarch2019

2 https://researchbriefings.files.parliament.uk/documents/CBP-7628/CBP-7628.pdf

3 Lowe S (2018) Brexit and services: how deep can the UK-EU relationship go. Centre for European Reform. Available from https://www.cer.eu/sites/default/files/brexit_trade_sl_pbrief_6.12.18.pdf

4 https://www.innovatefinance.com/blogs/fintech-needs-you-solving-the-uk-talent-gap/

has been met or not be the end of December 2020 under the terms of the Political Declaration. However, equivalence also leads to uncertainty because equivalence can be revoked by the EU[5] and the decision making around equivalence can become linked to wider EU negotiations.[6]

1.2 Uncertainty the future of the UK's financial services sector

Uncertainty surrounding the UK's future trading relationship with the EU has shaped the recent development of the financial services sector nationally. Growth in the sector has been subdued since the vote to leave the EU in 2016. The sector's output decreased by 0.7% in the three months to May 2019 and has not seen positive growth since the three months to April 2017. This is the longest period without increased output in the financial services sector since records began.[7]

Whilst more attention has been paid to the implications of leaving the single market for the goods and manufacturing sectors, there is a growing recognition of the need to better understand the possible impacts of different Brexit scenarios for the services sector.[8] This report contributes to this work by focusing on the possible regional impacts for the financial services sector of the UK's planned departure from the single market.

In so doing, this report builds on work that assesses the possible impacts of different future regulatory and trade relations for the UK's financial services sector at the national level. Estimates suggest that under a no deal Brexit scenario where British based financial institutions lose their current passporting rights into the EU market without a trade deal being established, 40-50% of EU related financial services activity which equates to £18-20BN in revenue along with an associated 31-35000 jobs would be at risk.[9]

Other estimates suggest that if the UK traded with the EU under a free trade agreement, the decline in UK exports of financial services (excluding pensions and insurance) would be 59% and the equivalent figure for insurance and pension services would be 19%.[10] The majority of this analysis has either focused on the UK as a whole, or London's international financial district.[11]

However, financial services are an important part of the UK's economy beyond London. For example, TheCityUK has argued that the UK as a whole can be understood as the 'world's leading international

[5] https://ukandeu.ac.uk/brexit-presents-a-crossroads-for-uk-financial-services/
[6] Lowe S 2019 What a Boris Johnson EU-UK free trade agreement means for business. Centre for European Reform. Available from https://www.cer.eu/sites/default/files/insight_SL_5.11.19_2.pdf
[7]https://www.ons.gov.uk/economy/economicoutputandproductivity/output/bulletins/indexofservices/may2019
[8] Lowe S (2018) Brexit and services: how deep can the UK-EU relationship go. Centre for European Reform. Available from https://www.cer.eu/sites/default/files/brexit_trade_sl_pbrief_6.12.18.pdf. Shepherd B et al (2019) EU exit and impacts on Northern Ireland's Services Trade: Evidence from services trade restrictiveness indices. Developing Trade Consultants.
[9] Oliver Wyman (2016) The impact of the UK's ext from the EU on the UK based financial services sector. Available from https://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2016/oct/Brexit_POV.PDF
[10] Lowe S (2018) Brexit and services: how deep can the UK-EU relationship go. Centre for European Reform. Available from https://www.cer.eu/sites/default/files/brexit_trade_sl_pbrief_6.12.18.pdf
[11] Frankfurt, Paris and Dublin: Post Brexit rivals to the City of London? SPERI Global Political Economy Brief No 6 University of Sheffield https://speri.dept.shef.ac.uk/wp-content/uploads/2018/11/Global-Brief-6-Frankfurt-Paris-Dublin-Post-Brexit-Rivals-to-the-City-of-London.pdf

centre for financial and related professional services' with two thirds of the 2.3 million people employed in the sector being based outside of London.[12]

Understanding the implications of leaving the single market for financial services across the UK, including but not limited to London is important for two main reasons:

- Financial services are an important source of sectoral growth for a number of towns and cities across the UK as their economies have transitioned away from manufacturing to a post-industrial focus.[13] Significant clusters of financial services and related professional services such as corporate law firms exist in: Manchester, employing 46000 people in financial and related professional services; Leeds, employing 40,000 people and; Bristol employing 35,000 people.[14] Beyond these clusters, international financial services institutions have significant operations in a large number of UK towns and cities including Deutsche Bank in Birmingham, JP Morgan in Bournemouth and Volkswagen Financial services in Milton Keynes. Other cities have focused on attracting new forms of financial services at the intersection between financial and technology firms. For instance, Belfast has attracted early stage technology companies operating in financial services linking with the cyber security sector in the city through initiatives such as the Catalyst Belfast Fintech Hub.[15]
- Evidence from previous periods of financial services contraction in the UK shows that they have uneven geographical implications, typically leading to greater concentration of financial services activity in London and a relative decline in regional financial services.[16] Research also shows that following a period of contraction, London's financial services sector typically recovers more rapidly than regional financial centres.[17] If a similar pattern occurred following Brexit and the UK's departure from the European single market, this suggests that the impacts on regional financial centres would be relatively more significant and longer lasting than that of London.

The rest of this report uses analysis from the most recent period of financial services contraction in the UK (the 2007-8 banking crisis) to explore the possible uneven regional impacts of the UK's departure from the single market for the financial services sector. The aim of the report is not to make recommendations about possible policy responses to the UK's departure from the EU but to provide evidence and analysis to aid decision making processes.

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[12] https://www.thecityuk.com/assets/2019/Report-PDFs/dfb6be8b79/Enabling-growth-across-the-UK-2019.pdf

[13] See for example Johnston A and Huggins R (2017) Regional growth dynamics in the services sector: the determinants of employment change in UK regions, 1971-2005 Growth and Change 49, 1 and Leyshon A and Thrift N 1989 South goes North? The rise of the provincial financial centre. In Lewis J and Townsend A (eds) The north south divide. Paul Chapman, London, 114-156

[14] Key facts, About UK-based financial and related professional services, 2019, available from https://www.thecityuk.com/assets/2019/Report-PDFs/b258573748/Key-facts-about-UK-based-financial-and-related-professional-services-2019.pdf

[15] https://wearecatalyst.org/workspace/catalyst-belfast-fintech-hub/

[16] Marshall J M 2013 A geographical political economy of banking crises: a peripheral region perspective on organisational concentration and spatial centralisation in Britain. Cambridge Journal of Regions, Economy and Society 6, 3, 455-477

[17] Wojcik D and MacDonald-Korth D 2015 The British and the German financial sectors in the wake of the crisis: size, structure and spatial concentration. Journal of Economic Geography 15, 5, 1033-1054

2. **Data and methods**

Estimating the possible regional impacts of the UK's planned departure from the single market on the financial services sector is methodologically challenging because of limited data availability on the current size and shape of the financial services sector, the trading relationships between different financial centres within the UK and the trading relationship between the UK and the EU. This is partly a reflection of the limited data that is collected on the services sector as opposed to manufacturing. However, the data available becomes even more limited when both the regional and sectoral breakdown of financial services activity is required.

Estimates of the impact of the UK's exit from the European single market on the financial services sector are also limited because, in common with the wider economic impacts, there is uncertainty surrounding the nature of the future trading relationship for financial services between the UK and the EU. Because of these uncertainties, in the analysis that follows it is important to remember that trends could develop differently in response to the development of new financial markets and services which is not covered in this report. In the analysis reported here, the scenario of financial services trade between the EU and the UK taking place under the provisions of a free trade agreement is examined. This scenario has been chosen in order to highlight the regional impacts on the financial services sector of the UK's departure from the EU that would need to be analysed in more detail when more information is available concerning the precise nature of the UK's future trading relationship with the EU in financial services.

The methodological challenges of examining the possible impacts of the UK's departure from the EU on the financial services sector are reflected in the use of a range of different data sources in existing analyses. For example, research and analysis of the impacts of leaving the single market for financial services has used balance of payments data to assess the different modes of service delivery that could be used by financial services firms following the UK's departure from the single market and the associated implications for the overall size and structure of the UK's financial services sector.[18] Other research has used revenue data to disaggregate the differential impacts of leaving the single market under different regulatory regimes for different parts of the financial services sector.[19] Further research has produced Services Trade Restrictiveness Indices to assess the possible impacts of the UK's exit from the EU for services trade at the subnational level in Northern Ireland.[20]

Reports have also tracked the relocation of financial services activity from the UK to the EU. However, caution needs to be exercised in interpreting these reports because there are different definitions of relocation depending on whether, staff, assets of legal entities are used. Recent work in this area reports that, as of October 2019, 332 financial services firms have been identified that have moved or are planning to move some of these activities from the UK to the EU. [21] This research shows a number of interesting elements. First the number of firms considering or undertaking such a relocation is reported to have increased by 23% in the run up to the planned departure of 31 October 2019. Second, Dublin has attracted the largest number of relocations although the pattern of relocation is 'multipolar' meaning that there has not been a simple move from London to one

[18] Lowe S (2018) Brexit and services: how deep can the UK-EU relationship go. Centre for European Reform. Available from https://www.cer.eu/sites/default/files/brexit_trade_sl_pbrief_6.12.18.pdf
[19] Oliver Wyman (2016) The impact of the UK's ext from the EU on the UK based financial services sector. Available from https://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2016/oct/Brexit_POV.PDF
[20] Shepherd B et al (2019) EU exit and impacts on Northern Ireland's services trade: evidence from services trade restrictiveness indices. Developing Trade Consultants.
[21] New Financial 2019 https://newfinancial.org/an-update-on-brexit-the-city-the-impact-so-far/

other financial centre with Luxembourg, Paris, Frankfurt and Amsterdam all attracting relocations, including some financial firms moving different parts of their operations to different locations simultaneously. Third, there is emerging evidence of specialisation between financial centres with asset management favouring Dublin whilst banks have focused on Frankfurt and market infrastructure such as trading platforms, exchanges and fintech firms have favoured Amsterdam.

However, whilst this research points to the possible outcomes of the UK's planned departure from the single market for financial centres in Europe, this report focusses on the possible implications within the UK. The research that underpins this report is complementary to these existing analyses and uses data on employment within the financial services sector. The advantages of this approach is that it allows an analysis at the regional level that accounts for the different composition of financial services in different towns and cities (e.g. the relative importance of banking versus insurance services that will be impacts differently following the UK's departure from the single market). This is important because different parts of the financial services sector will be impacted differently by the UK's exit from the EU, depending to a large degree on the extent to which they currently sell their services into the EU market from their UK base.

It is important to note that whilst the approach in this report allows an analysis that specifies the uneven regional outcomes in terms of employment numbers, it does not account for the different output and productivity associated with different jobs. This means that whilst the report discusses the regional financial services labour market implications of the UK leaving the single market, it does not discuss the uneven relative contribution to financial services output as a whole for different cities and regions. For example, more jobs could be lost numerically in city A compared to city B. But the loss of output to the financial services sector might be greater from city B compared to city A if the output per job is greater in city B. Therefore, it is important to consider the findings of this report alongside the wider research being conducted into the possible impacts of the UK's exit from the EU on the financial services sector. Nevertheless, research on previous periods of financial services contraction demonstrates that job losses in the financial services sector can have important implications for regional economic growth in the UK that contributes to the path dependency of uneven regional economic development across the UK.[22] The research in this report seeks to develop this approach in the case of the UK's exit from the EU.

Following research published on the impacts of the 2007-8 financial crisis on the concentration of financial services in London,[23] this report uses the UK's Standard Industrial Classification (SIC) to define the financial services sector as 'monetary intermediation, activities or holding companies, trusts, funds and similar activities, other activities except insurance and pension funding (SIC category 64); insurance, reinsurance and pension funding (SIC category 65) and activities auxiliary to financial services and insurance activities (including insurance agents and brokers, securities and commodity brokerage and investment advice (SIC category 66). These are referred to as banking, insurance and auxiliary financial services in the rest of the analysis. This classification is likely to lead to a conservative estimate as to the number of jobs employed within financial services because some financial firms, particularly those in the fintech sector do not report under SIC codes 64-66 and instead use SIC code 62 (computer programming, consultancy and related activities) and SIC code 70 (Activities of head offices and management consultancy activities). Given that it is not possible to

[22] Dawley, S, Marshall, N, Pike A, Pollard J and Tomaney J 2014 Continuity and evolution in an old industrial region: the labour market dynamics of the rise and fall of Northern Rock. Regional Studies 48, 1, 154-172
[23] Wojcik D and MacDonald-Korth D 2015 The British and the German financial sectors in the wake of the crisis: size, structure and spatial concentration. Journal of Economic Geography 15, 5, 1033-1054

disaggregate financial services activity within these additional SIC codes, these have not been included in this analysis.

Data for England, Scotland and Wales comes from the Business Register and Employment Survey, published by the Office of National Statistics and for Northern Ireland from the Northern Ireland Business Register and Employment Survey published by the Northern Ireland Statistics and Research Agency. The data includes information on the location of all employees by job classification but does not include self-employed individuals. Because of this and the fact that advanced business services that are closely linked to financial services are excluded from the analysis, the data presented below presents a conservative estimate of the size of the sector. However, this does not detract from the main aim of the research which is to highlight the uneven regional impacts of the UK's exit from the EU on the financial services sector.

Data was collected for London, Edinburgh, Glasgow, core cities in England (Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield), mid-tier financial centres (defined as non-core cities with significant financial services centre employment (York, Northampton, Peterborough, Brighton and Hove, Milton Keynes, Bournemouth, Reading and Swindon) and Northern Ireland. Northern Ireland is considered as a whole, including Belfast, because data on employment by different types of financial services is collected at this scale in Northern Ireland.

The following methodology was applied

2. Employment data in banking, insurance and auxiliary financial services was collated for each city or region between 2008 and 2015 to detail the impact of the 2007-8 financial crisis. Data collection stopped at 2015 so that the impact of the 2015 referendum result was not included at this stage. This is because the pattern of employment change following the crisis is used as the baseline for the model of estimate employment change following the UK's departure from the single market in this report. This approach is adopted because research clearly shows a repeated pattern of concentration in London following a period of sectoral shrinkage and the 2007-8 financial crisis is the most recent such period of contraction prior to Brexit.
3. Employment data for 2017 in banking, insurance and auxiliary financial services was collated for each city or region to act as the baseline for modelling the possible impacts of Britain's departure from the single market because (at the time of writing) this is the last year for which data by SIC code is available across the UK
4. For employment in each of the three SIC codes in each town/city in 2017, a multiplier was applied that reflected that part of financial services' relative reliance on supplying financial services cross border into the EU based on its relative reliance on domestic, non EU and EU based trade.[24] This was used to estimate the year one impact of the UK's departure from the single market.
5. For year's 2-6 the analysis uses the experience of different types of financial services employment in different regions following the 2007-8 crisis to estimate the relative employment change at the sub national level. This approach assumes that financial centres within the UK are tied into economic relations with each other in a hierarchy from

[24] The multiplier was derived from Oliver Wyman (2016) because it assesses the possible Brexit impacts across different types of financial services. The impact of the UK's exit from the EU on the UK based financial services sector. Available from https://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2016/oct/Brexit_POV.PDF

international financial centres at the top, through mid-tier regional financial centres to emerging centres of financial services activity.[25] Research shows that changes in the sectoral composition and size of the international financial centre, in this case London following the UK's exit from the EU, has implications for financial centres lower down the hierarchy because financial centres in the hierarchy are linked[26] e.g. a financial institution may have its head office in the international financial centre but its mid and back office functions in smaller financial centres to take advantage of the cost savings this affords.

This approach is used because there is not a model, to the best of the author's knowledge, that models trends of regional concentration or dispersal within the financial services sector under periods of contraction or crisis.[27] However, evidence from previous periods of financial services contraction, such as in the UK in the early 1990s and the savings and loan companies crisis in the US in the late 1980s, repeatedly shows a pattern of spatial concentration or retreat of financial services activity to higher order financial centres (typically London in the case of the UK).[28] Given the recurring nature of this pattern of concentration in the UK under conditions of financial services contraction, the 2007-8 crisis provides the most update to date evidence of the possible impacts of financial services contraction on regional financial centres. The results are presented as percentage employment change because it is important to note that whilst the trends of concentration hold firm across different periods of financial services contraction, it is very difficult to assess the numerical implications in a meaningful way without more detailed knowledge of the UK's future trading relationship with the UK. Therefore, the analysis below presents a framework through which such research might be carried out in the future.

[25] Van Meeteren M and Bassens D 2016 World cities and the uneven geographies of financialisation: Unveiling stratification and hierarchy in the world city archipelago. International Journal of Urban and Regional Research 40, 1, 62-81
[26] Marshall N 2013 A geographical political economy of banking crisis: a peripheral region perspective on organisational concentration and spatial centralisation in Britain. Cambridge Journal of Regions, Economy and Society 6, 3, 455-477.
[27] Wojcik D and MacDonald-Korth D 2015 The British and the German financial sectors in the wake of the crisis: size, structure and spatial concentration. Journal of Economic Geography 15, 5, 1033-1054
[28] Leyshon A and Thrift N 1997 *Money Space.* Warf, B and Cox J 1996 Spatial dimensions of the savings and loans crisis. Growth and Change 27, 2, 135-155

3. The uneven potential impacts of the UK's exit from the single market on financial centres

Given the difficulties of estimating employment change following the UK's planned exit from the UK, it is helpful to consider official data on the impacts of previous contractions in the financial services sector since this provides clear evidence of the uneven regional trajectories in financial services employment. Table 1 presents a summary of this for overall financial services employment in selected towns and cities across the UK between 2008 (prior to the decline in employment following the 2007-8 financial crisis) and 2017 (the latest available source of such data for all towns and cities in the UK at the time of writing).

Table 1: Financial sector employment in selected UK financial centres

City	2008	2017	% Change
Greater London	332,750	363675	109
Newcastle	16,880	15255	90
Manchester	37,280	31795	85
Sheffield	9900	8505	86
Leeds	33000	26000	79
Nottingham	7000	4650	66
Bristol	26,850	24750	92
Greater Birmingham	27,300	23750	87
Liverpool	19,315	13905	72
Core cities total	**177,525**	**148,610**	**84**
York	4250	4400	104
Bradford	7400	7925	107
Northamptonshire	10725	10520	98
Peterborough	6000	5500	92
Brighton and Hove	8700	9000	103
Milton Keynes	5600	8600	154
Bournemouth	9300	8850	95
Swindon	7250	10300	142
Cardiff	12500	7500	60
City of Edinburgh	35000	32000	91
Glasgow City	25000	23250	93
Northern Ireland	20130	18930	94

Following French Lai and Leyshon (2010) and Wojcik and MacDonald-Korth (2015) local authority districts are used for cities except for London (defined as Greater London), Birmingham (including Solihull), Bristol (including South Gloucestershire) and Manchester (including Salford and Trafford).

This table reveals two important changes in employment following the 2007-8 financial crisis which shape the nature of the UK's financial services sector in its present form and are therefore pertinent to the future impact of the UK's departure from the EU:

- The recovery in financial services employment following the 2007-8 financial crisis has been strongest in London and smaller regional financial centres such as Milton Keynes and York

This reflects the regenerative capacities of London's international financial district in that, when faced with changes in financial market trading conditions, it has successfully developed new types of financial markets in order to maintain its position as a leading international financial centre.[29] Smaller regional financial centres have also been very successful in attracting financial service firms, reflecting their wider economic growth trajectories in recent years that has typically outperformed core cities and competitive cost location.[30]

- Core cities will be responding to the UK's changing trading relationship with the EU on the basis of overall employment decline in financial services following the 2007-8 financial
- The downward trend in staffing retail banking branches and branch closure are more likely to be detected in the total of financial services staff in smaller, regional financial centres rather than larger core centres, particularly London because of the relative importance of retail finance in smaller centres.

Table 2 breaks down the total employment figures in financial services for selected financial services clusters in the UK into banking, insurance and auxiliary financial services. This break down is important in relation to the UK's planned departure from the EU's single market because each of these sectors has different geographical foci in terms of markets with banking and insurance being more reliant on domestic markets than auxiliary financial services. From these figures, it is possible to show the proportion of financial services employment in each location that is reliant on these different geographical markets.[31] Whilst the differences are relatively small, one important trend to note is that those centres with a larger relative focus on insurance typically have less employment reliant on international and EU business, reflecting the more domestically focused insurance sector compared to other types of financial services.

[29] Hall S 2009 Financialised elites and the changing nature of finance capitalism: investment bankers in London's financial district. Competition and Change 13, 2, 173-189

[30] Martin R, Sunley P, Tyler P and Gardiner B 2016 Divergent cities in post-industrial Britain. Cambridge Journal of Regions, Economy and Society 9, 2, 269-299

[31] The relative importance of EU, international non EU and domestic markets for the three types of financial services shown is derived from estimates provided in The impact of the UK's exit from the EU on the UK based financial services sector. Available from https://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2016/oct/Brexit_POV.PDF

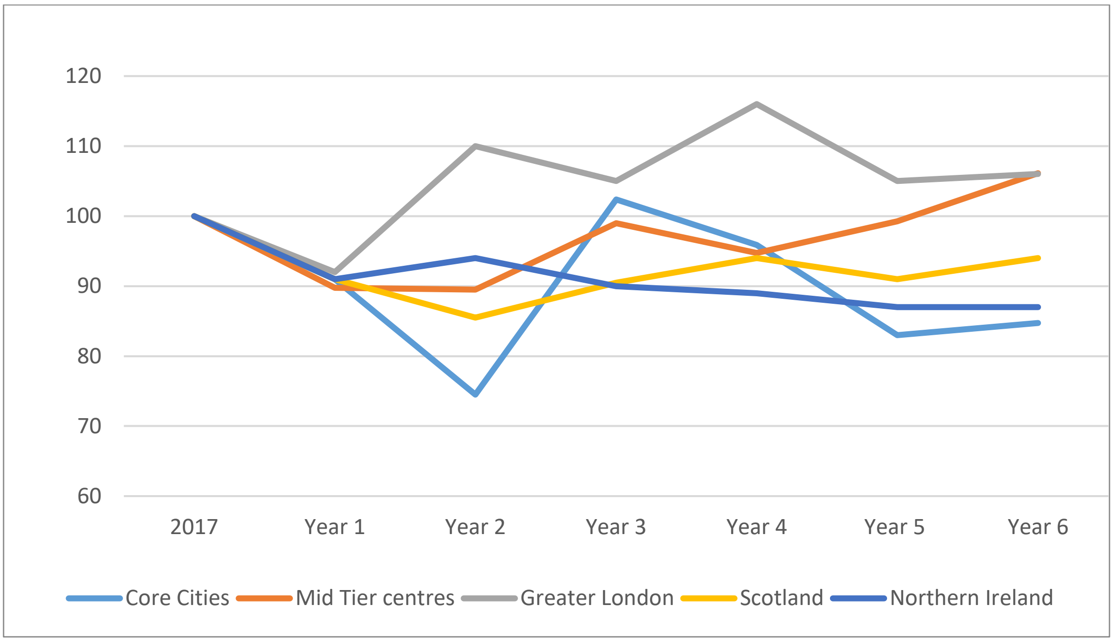
Table 2: Financial services employment by sector and geographical focus in selected UK financial services centres

City	Financial services employment (2017)	Employment by financial services sector			Proportion of employment reliant on different geographical markets (%)		
		Banking	Insurance	Auxiliary financial services	EU Business [32]	International non EU Business[33]	Domestic business[34]
Greater London	363675	183550	18350	161775	25	39	34
Newcastle	15255	8975	1680	4600	23	32	43
Manchester	31795	12250	5045	14500	24	39	34
Sheffield	8505	5000	5	3500	26	38	35
Leeds	26000	14000	1000	11000	25	38	35
Nottingham	4650	1250	400	3000	27	48	22
Greater Bristol	24750	11250	3250	10250	24	38	36
Greater Birmingham	23750	14000	1850	7900	24	34	41
Liverpool	13905	7500	1505	4900	23	35	40
York	4400	600	300	3500	29	55	13
Bradford	7925	6000	175	1750	23	29	47
Northamptonshire	10520	7000	20	3500	25	34	40
Peterborough	5500	1000	1500	3000	23	43	30
Brighton and Hove	9000	4500	3000	1500	19	26	53
Milton Keynes	8600	6000	100	2500	24	32	43
Bournemouth	8850	6000	600	2250	23	30	45
Swindon	10300	8000	800	1500	22	25	52
Cardiff	7500	4000	500	3000	25	37	37
City of Edinburgh	32000	16000	6000	10000	22	33	43
Glasgow City	23250	11000	2250	10000	24	38	35
Northern Ireland	18930	12200	1130	5600	23	32	43

[32] % EU business is defined as international and wholesale business related to the EU
[33] % international non EU business is defined as international and wholesale business not related to the EU
[34] % Domestic business is defined as business earned from UK clients

Building on this data, Figure 1 shows that taking financial services as a whole, all types of financial centres within the UK would be estimated to undergo a contraction in financial services employment of close to nine percent in the first year following the UK's exit from the European single market. In Greater London, this equates to around 31,000 jobs whereas the number of jobs lost is lower in smaller financial centres although the percentage decline is the same (for example, just over 2,000 in Manchester and 1700 in Northern Ireland). This decline is underpinned by the implications of leaving the single market for the banking sector in particular. It reflects the fact that under such a scenario, it is likely that some financial institutions, including banks, will seek to establish a commercial presence within the EU leading to the moving of some financial jobs from the UK to the EU.

Figure 1: Estimated percentage employment change in financial services following the UK's planned departure from the European single market[35]



From a proportionally similar year one impact of leaving the single market on financial services across the UK, the outcomes for employment in financial services are then estimated to diverge across the UK in subsequent years. Possible reasons for this are discussed below for different types of financial centre within the UK

3.1 The financial services sector in London following single market depature

The recovery in financial services employment in the second year following the UK's planned departure from the single market is estimated to be most rapid in London. Here, employment in

[35] This chart was produced by applying the multipliers as estimated in step four of the methodology for year one following the UK's departure from the single market. Step 5 of the methodology was then applied to explore the future implications of this if a similar set of regional trends to that of the financial crisis were experienced in the financial services sector as a whole

financial services is estimated to recover to beyond its pre departure levels within two years. This finding might appear counter-intuitive given the significance of financial services within London where 49% of the UK's financial services sector output is generated.[36] However, the experience of previous contractions in financial services in the UK in particular, together with research on the relationship between different types of financial centres and the relationship between them can be used to identify a number of reasons why this scenario may occur

- Leading financial centres with deep and dense networks of financial firms provide significant agglomeration economies and economic advantages for financial institutions that co-locate with each other in such centres. These clusters, such as in the City of London and Canary Wharf, allow knowledge to be shared and innovations to be developed. These agglomeration economies have allowed London's financial district to demonstrate considerable regenerative capabilities in face of previous contractions in financial services activities, e.g. through the development of new financial markets in areas such as those associated with green finance and Chinese currency internationalisation.[37] Even with the departure of some jobs to the EU following the UK's planned exist from the single market, the agglomeration economies in London will be more significant than any other financial centre in the UK providing significant advantages to London compared with the rest of the UK in terms of facilitating recovery in the sector.
- Leading financial centres offer significant labour market advantages for financial services firms. For example, London attracts a significant amount of graduate labour that is required within financial markets.[38]
- If costs are cut during a period of sectoral contraction, cost cutting is likely to be focused on more peripheral mid and back office functions which are typically more commonly located in more peripheral financial centres.[39]
- There are reputational benefits for financial firms located within London that contribute to the continued dominance of a small number of financial centres at the top of the international hierarchy of financial centres. The relatively slow pace of change in terms of reputation partly explains why the composition of the ranking of leading international financial centres has changed relatively little in recent years and suggests that any change in London's reputation as an international financial centre following the UK's departure from the EU is likely to be relatively slow.[40]
- The future trajectory of London as an international financial centre after the UK's planned departure from the single market will depend in large part on the regulatory relationship that is established between London and the EU for trade in financial services. However, it seems likely that London will continue to act as a leading, albeit potentially smaller and refocused international financial centre following the UK's departure from the single market.

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[36] Financial services: contribution to the UK economy. House of Commons Library briefing paper 6193, 31 July 2019, https://researchbriefings.files.parliament.uk/documents/SN06193/SN06193.pdf
[37] See Knox Hayes J 2009 The developing carbon financial service industry: expertise, adaptation and complementarity in London and New York, Journal of Economic Geography 9, 6, 749-777; Hall S 2017 Rethinking international financial centres through the politics of territory: renminbi internationalisation in London's financial district. Transactions of the Institute of British Geographers 42, 4, 489-502
[38] Beaverstock J V and Hall S 2012 'Competing for talent': global mobility, immigration and the City of London's labour market, Cambridge Journal of Regions Economy and Society 5, 271-287
[39] Dawley, S, Marshall, N, Pike A, Pollard J and Tomaney J 2014 Continuity and evolution in an old industrial region: the labour market dynamics of the rise and fall of Northern Rock. Regional Studies 48, 1, 154-172
[40] Parr JB and Budd L 2000. Financial services and the urban system: an exploration. Urban Studies, 37, 3.

3.2 The financial services sector in mid-tier financial centres following single market departure

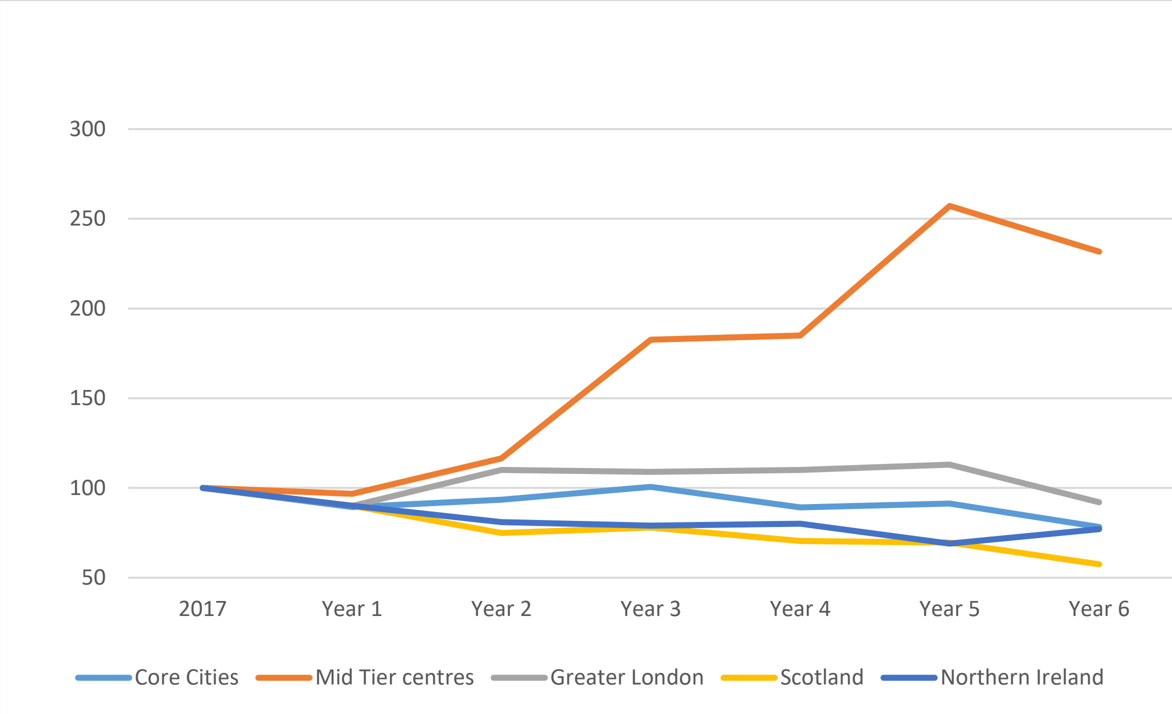
Mid-tier financial centres are defined in this report as non-core cities that have a significant element of financial services activity. They include cities such as York and rapidly growing local authorities often located with good transport links to London in the south of England such as Milton Keynes, Swindon, Brighton and Hove and Bournemouth. The estimates suggest that these towns and cities will recover more slowly than London following a UK departure from the EU's single market for services but that their employment growth would then increase above that of the core cities, virtually matching London's by year 6.

These centres have increasingly attracted financial services firms in recent years. For example, Milton Keynes is the location of Volkswagen Financial Services headquarters, Swindon hosts the UK headquarters of Nationwide as well as financial firms such as Zurich and Handelsbanken having major commercial presences in the town. The reasons for the growth of financial services in these towns and cities following the 2007-8 financial crisis appear to offer the potential for continued future growth following the UK's planned departure from the single market, building on their close physical proximity to London in particular. The main reasons that explain the possible experience of these places are

- Close connectivity to London and internationally via London airports. This allows the timely and cost-effective sharing of knowledge and information with London in order to facilitate financial market activity. Reflecting this, it is notable that a number of these mid-tier financial centres are located physically close to London (Brighton, Reading and Milton Keynes for example) and others benefit from good infrastructure links to London (York for example on the east coast mainline).
- There is some evidence that these financial centres may benefit from enhanced connectivity to London in the future. For example, the crossrail project currently due for completion by March 2021 will reduce journey times between London and mid-tier financial centres west of London, notably Reading.
- Mid-tier financial centres are able to access a significant amount of graduate labour through Universities in the South of England and London. It is well documented that a ready supply of highly skilled labour it an important factor in enhancing the competitiveness of financial centres[41]
- The growth in these centres following the 2007-8 financial crisis has included an important focus on retail finance that is more domestically focused as well as insurance. Both of these sectors are estimated to suffer less following Brexit and this partly accounts for the stronger predicted employment recovery in these financial centres. This is reflected in figure two that shows the estimated percentage employment change in insurance alone following the UK's planned exit from the single market.
- The growth of financial services within these locations also reflects their wider trajectories of economic growth across all sectors following the 2007-8 financial crisis such that the growth rate of the core cities has lagged behind that of these smaller towns and cities, particularly those located in the South of England.[42]

[41] https://www.longfinance.net/media/documents/GFCI_26_Report_v1.0.pdf
[42] Martin R, Sunley P, Tyler P and Gardiner B 2016 Divergent cities in post-industrial Britain. Cambridge Journal of Regions, Economy and Society 9, 2, 269-299

Figure 2 Estimated percentage employment change in insurance following the UK's planned departure from the European single market



3.3 The financial services in core cities following single market departure

The core cities in this analysis are Leeds, Liverpool, Bristol, Birmingham, Manchester, Nottingham, Newcastle, Sheffield, Edinburgh and Glasgow. The analysis suggests that the UK's departure from Europe's single market could have a more enduring impact than for either London or mid-tier financial centres on this group of cities. The estimates suggest that employment in financial services could remain below pre-Brexit levels six years after the UK's planned departure from the EU.

This estimate is important because several of these cities have significant and typically more longstanding clusters of financial services activity compared to mid-tier financial centres. However, these clusters have not grown as rapidly as mid-tier financial centres in recent years (as shown in Table 1) and this pattern is estimated to continue after the UK leaves the single market in this analysis.

For example, Bristol developed significant financial services expertise following the early 1990s recession. By 2011, the banking and insurance sector was the largest contributing sector to the city's GVA. However following the 2007-8 financial crisis and recession, its recovery, particularly in output has been relatively slow and weak suggesting that the city may have become less attractive for high value added financial services.[43]

[43] See https://www.cityevolutions.org.uk/wp-content/uploads/171127-Working-Paper-7-Bristol-Case-Study-Report.pdf and French S and Leyshon A 2003 City of money? Financial services in the Bristol city-region. In Urban transformation: shaping the competitive city of the future 32-51

The main reasons that explain this possible response to the UK's departure from the single market in these financial centres are set out below

- In previous periods of financial services contraction, financial centres that are not geographically proximate to London have witnessed more severe impacts leading, effectively, to a greater concentration of financial services activity in London at the end of the contraction.[44]
- Uneven regional impacts have been driven by consolidation as financial firms sought to cut costs throughout their supply chains, either by making efficiency savings in regional centres and/or locating some back office functions away from core cities to lower cost locations, including overseas.[45]
- Because of the reputational and economic of being locating in London's financial district, efforts to reduce costs are likely to be located in more peripheral centres, where, for example access to a ready supply of graduate and international talent is more limited than in London[46]
- Cost savings for financial institutions can also be achieved by locating away from core cities to smaller mid-tier financial centres[47]
- There is also evidence that the relative importance of London following previous crises increased as new types of financial work were concentrated in London rather than regional financial centres such as the growth in compliance and risk assessment jobs concentrated in London after the 2007-8 financial crisis.

Within these wider trends, it is important to note that the estimates vary between different core cities. For example, Birmingham is estimated to have employment in financial services of 73% six years after the UK's planned departure from the single market whilst the equivalent figure for Bristol is 93%. This can be explained in part by Birmingham's greater reliance on banking as opposed to insurance which will be more heavily impacted by a departure from the EU. These local nuances reveal the importance of development place sensitive policy interventions in relation to the financial services sector.

3.4 The financial services sector in Northern Ireland following a UK departure from the EU's single market

The initial impact of a no deal Brexit on financial services in Northern Ireland is estimated to be slightly less severe than for other financial centres across the UK. This reflects strong recent growth in the sector in Northern Ireland. For example, GVA in Northern Ireland in financial and related services increased by 6.1% in 2016-17, faster than London and the South East.[48] This has been built on attracting back and middle office financial services activity such as in risk management and central services roles (e.g. contact centre employment and human resources expertise) based

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[44] See Marchall, J N, Pike, A, Pollard J S, Tomaney J, Dawley S and Gray J 2012 Placing the run on northern rock. Journal of Economic Geography 12, 157-181.
[45] Cooper M and Larkin K 2008 Financial services in Britain's cities: weathering the storm? Centre for cities.
[46] Wojcik D and MacDonald-Korth D 2015 The British and the German financial sectors in the wake of the crisis: size, structure and spatial concentration. Journal of Economic Geography 15, 5, 1033-1054
[47] See https://www.cityevolutions.org.uk/wp-content/uploads/171127-Working-Paper-7-Bristol-Case-Study-Report.pdf
[48] https://www.thecityuk.com/news/regional-financial-centres-thrive-while-jobs-fall-in-london-and-the-south-east/

around competitive labour costs compared to other locations in the UK. Belfast in particular has also developed an internationally competitive digital finance hub in both fintech and insuretech, notably through US foreign direct investment.[49] For example, multinational firms such as Allstate in insurance and TP ICAP in fintech have significant operations in the city.

Assessing the impact of the UK's planned departure on Northern Ireland is more difficult than for other parts of the UK. The importance of fintech means that the possible under reporting of employment in financial services based on the classification used in this report noted above are particularly important. For example, reports at Companies House state that AllState NI reports under SIC code 62 (computer programming, consultancy and related activities). Similarly, First Derivatives uses codes 62 and 70 (the latter being Activities of head offices and management consultancy activities)[50] Moreover, there were distinctive impacts of the 2007-8 financial crisis in Northern Ireland, notably in relation to property loans which impacted upon the organisational form and size of banks in Northern Ireland in ways which make learning from the experience of the 2007-8 crisis in relation to the possible experiences following the UK's departure from the single market more challenging than for the rest of the UK.

Bearing these caveats in mind, after year 1 the impact of the UK's planned departure from the single market is estimated to be more severe and long-lasting for Northern Ireland compared to London and mid-tier financial centres, with the experience being most similar to that of core cities. The estimates suggest that employment 6 years after Brexit could be as low as 87% of that prior to the UK's departure from the EU. There are a number of reasons that are likely to contribute to this

- These figures reflect the fact that Northern Ireland's economy more generally is more vulnerable in the event of single market departure for services compared to other regions within the UK because of its close connectivity with Ireland.[51] Uncertainty surrounding the future trading relationship in financial services between Belfast, London and Dublin is particularly important because it has been documented that political and economic uncertainty adversely impacts the development of financial centres.[52]
- The importance of mid and back office financial functions to the financial services sector in Northern Ireland makes the sector particularly vulnerable because experience from previous periods of financial services contraction shows that cost cutting when balance sheets comes under pressure are typically concentrated in more peripheral locations compared to London.[53]
- It is important to note that the future development of Belfast needs to be considered not only in relation to London but also in relation to Dublin. (Relations between UK financial centres and European centres are important across the UK but particularly so in relation to all Ireland economic activity). It is hard to assess the impacts of this on Belfast as it will depend to a large extent on the nature of the UK's trading relationship with the EU for

[49] https://fintech-alliance.com/community-hub/profile/invest-northern-ireland/23

[50] For more detail on the ways in which statistical classifications shape the definitions of the financial services sector see Wojcik 2019 Financial and business services: a guide for the perplexed. Available from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3413538

[51] https://ukandeu.ac.uk/wp-content/uploads/2019/08/UKIN-No-Deal-Brexit-Issues-impacts-and-implications.pdf

[52] https://blogs.lse.ac.uk/politicsandpolicy/brexit-epicentre-london-financial-services/

[53] Wojcik D and MacDonald-Korth D 2015 The British and the German financial sectors in the wake of the crisis: size, structure and spatial concentration. Journal of Economic Geography 15, 5, 1033-1054

financial services after Brexit but Dublin has already attracted financial services business from London as noted above suggesting that the relationship between Northern Ireland and Dublin as well as between Northern Ireland and the rest of the UK will be critical in shaping the future development of financial services in Northern Ireland.

- On the one hand, there is scope for some financial services activity to relocate from Belfast (along with the rest of the UK) to Dublin in order to retain market access to the EU. However, Belfast is also well placed to serve as a unique intermediary centre particularly in fintech and insuretech between Dublin and London following the UK's departure from the single market with associated possible gains in financial services employment.

4 Conclusion

This report has sought to explore the possible impacts of Brexit on the UK's financial services sector under conditions in which the UK no longer has access to the EU's single market. Such a task is challenging because data on financial services, particularly at the regional and city level is limited. At the time of writing the future trading relationship between the EU and the UK is also unknown. However, despite the practical and methodological challenges, such a task is important because relatively little attention has been paid to date to the possible impacts of Brexit on the financial services sector across the UK, including but not limited to London. This oversight needs to be addressed because financial services play an important economic role in a number of towns and cities across the UK through employment and the wider economic benefits locally that stem from that.

In order to respond to these practical and methodological challenges, the analysis in this report uses evidence from previous periods of financial contraction in the UK and internationally that repeatedly show that the impacts of a contraction in the financial services sector are regionally uneven. Moreover, this trend of regional contraction has been particularly marked in the UK in the past, reflecting London's dominance as an international financial centre. This has typically meant that regional financial centres, particularly those less geographically proximate to London have seen a greater relative contraction in the financial services sector than London.[54]

The analysis in this report explores the possible implications of such a pattern being repeated in terms of employment in financial services across regional financial centres in the UK following the UK's departure from the EU's single market for services. It is important to note that this means that any subsequent trade agreements that stimulate financial services activity in the UK have not been accounted for.

The analysis estimates that London and mid-tier financial centres, typically located in smaller towns and cities in the south of England, could be less adversely impact by a no deal Brexit than core cities and those in the devolved authorities.

Whilst there is uncertainty about the precise size of these differences, the fact that the pattern of concentration of financial services in London following periods of contraction has repeatedly happened suggests there is little evidence that such a pattern would not happen again under a no deal Brexit.

This suggests that policy attention needs to be paid not only to London's financial centre in relation to Brexit but also to localised policy initiatives that respond to the particular and different challenges that could be faced by financial centres across the UK (particularly in terms of their relations with London's financial district and ability to attract and retain highly skilled labour) following the UK's departure from the single market for services in a no deal Brexit scenario. Such attention is particularly important because research shows that cities across the UK have witnessed disparate growth rates for some time prior to the UK's planned departure from the single market[55] and as such, regionally uneven impacts in the financial services sector following departure could exacerbate processes of uneven economic development which are already in process.

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[54] Wojcik D and MacDonald-Korth D 2015 The British and the German financial sectors in the wake of the crisis: size, structure and spatial concentration. Journal of Economic Geography 15, 5, 1033-1054

[55] Martin R, Sunley P, Tyler P and Gardiner B 2016 Divergent cities in post-industrial Britain. Cambridge Journal of Regions, Economy and Society 9, 2, 269-299

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