Introduction

1. Scottish Financial Enterprise (SFE) welcomes the opportunity to contribute to the Economy, Jobs and Fair Work Committee’s inquiry on Scotland’s Economic Performance. A competitive, innovative and growing financial services sector and ecosystem is critical for the economy of Scotland and the success of financial services businesses.

2. SFE is the representative body for financial services in Scotland. We have over 100 members and affiliated organisations, varying from small start-ups to large global companies. Our industry employs over 147,000 people directly and indirectly, provides 8% of Scotland’s GVA and is the second largest and most diverse financial services cluster in the UK outside of London.

3. The diversity of the financial ecosystem in Scotland is resilient, flexible and innovative. This has ensured that, throughout a decade of change, Scotland remains an attractive and competitive location for financial services. In terms of scale we provide 33% of the UK workplace pension market, 20% of the UK protection market, 25% of the UK advisor platform market and we manage over £1 trillion assets through 31 Investment management firms and investment trusts. We are also home to the UK’s two largest challenger banks and have built considerable capability in establishing and launching new banks.

4. SFE would like to thank Dr Graeme Roy, Director of the Fraser of Allander Institute, for providing a substantial background briefing and Stephen Ingledew, Chief Executive of FinTech Scotland, for his contribution to the content in this submission.

Economic performance

5. Scotland is in the top 20 OECD countries in terms of GDP per head and we are currently ranked 3rd behind London and the South East in terms of GDP per head in the UK. Our unemployment is relatively low and we have the highest percentage of our workforce earning at least the Living Wage of any part of the UK. Scotland is consistently ranked 2nd best location in the UK behind London for inward investment, in terms of number of projects secured.

6. But there is scope to do better. Over the last year, growth in Scotland has been just 0.6% compared to a long-term growth rate of closer to 2.0%. This is about 1.3 of the UK as a whole, where growth is currently 1.7%. The downturn in oil and gas is a key explanation, but in recent months this sector has been recovering and confidence returning. In terms of R&D by businesses, Scotland is 9th out of 12 in the percentage of our GDP that is spent on R&D and while the number of private sector businesses is at a record high, we’re still 9th in the UK for new business registrations with only 50 new businesses per 10,000 of the adult population in 2016 compared to a UK figure of 67. Like the rest of the UK, levels of business investment remain lower than many of our competitors.

7. Boosting productivity in Scotland has been a long-term objective of successive administrations. Back in 2004, Scottish GDP per hour worked was 94% of the UK rate, in 2016 it was 99%. However, Scotland still ranks in the 3rd quartile of OECD countries in terms of productivity. The government have a long-standing target to be in the top quartile;
8. As a growth sector, financial services has a critical role to play in boosting productivity. ONS estimate Scottish financial services exports were around £3.4bn (2015). This is likely to be on the low side given the sector’s links to the City etc. The sector has gone through significant change since the financial crisis. On the one hand, the sector is still around 9% smaller than at its peak in 2008/09; But it’s over 8% higher than it was back in 2015.

Chart 1: Output in Scottish financial and insurance services since 2006

Source: OECD

Chart 2: Output in Scottish financial and insurance services since 2006

Source: Scottish Government

New strategy and vision for Scottish financial services
Scottish Financial Enterprise

9. To preserve our status as a leading global financial centre, SFE developed a five-year Scottish Financial Services Strategy in 2017. The Strategy carves out a strategic vision marked by a new approach to coordination and collaboration across the sector and with partners, including the Scottish Government and its agencies. Ultimately, it aims to strengthen Scottish financial services to help grow Scotland’s economy and drive inclusive growth. The Strategy was developed by the industry and has been endorsed by the Financial Services Advisory Board (FiSAB), which is co-chaired by the First Minister and the SFE Chairman.

10. Five key themes for action have been identified to deliver the strategy, underpinned by the strong foundations we have today. The action plan for future success looks to build on a new wave of opportunities such as cyber security, artificial intelligence, open banking and process robotics while navigating emerging risks including greater UK regional competition for investment and possible long-term implications of Brexit. We are already making progress on each of the workstreams as SFE members drive forward the actions of; 1) new framework for sector engagement, 2) promote and manage our ecosystem, 3) collaborate for innovation, 4) build and attract future skills and talent, 5) national partnership for social impact.

A well-connected global financial services centre of excellence

11. For over 300 years, Scotland has been home to world-class expertise and innovation in financial services. We have a long and well documented history of creating ground-breaking and game-changing innovations. Scotland continues to be a global leader through the work of our vibrant fintech sector and renowned universities. The success of Scottish financial services has always been closely linked to our academic institutions and that collaboration around innovation continues at pace today.

12. To build on this legacy, we must continue to be an attractive location both for our existing firms and inward investors. We need to increase our connectivity and networks with the other main financial centres. Scotland has all the key ingredients in place, which enable us to effectively compete globally. These include a highly-regarded and respected regulatory framework, significantly competitive commercial property and labour costs, world-class universities and a highly trained and skilled workforce. But there are also new global business drivers creating new challenges which the industry and our partners need to be alert to, so we can adapt and turn them into opportunities.

13. While current levels of support from the Scottish Government via Scottish Enterprise funding and stimulus packages help create an attractive offer to investors, we need to do more to proactively target and promote our sector to our existing financial services institutions based within the UK and internationally; to secure our share, in what is becoming an increasingly competitive market.

14. SFE is working with Scottish Enterprise and Scottish Development International to develop a new prospectus for financial services to promote Scotland to potential UK and international investors. It is envisaged that the prospectus will be used by both the public and private sector.

15. SFE appreciates Ministers continuing to meet with and welcome inward investors, but we encourage the industry and Government to work more closely together to secure investment into financial services. SFE sees value in an increased focus on existing UK based financial services institutions looking to north-shore and firms seeking to repatriate services.
Scottish Financial Enterprise

There are real opportunities in targeting specific sector opportunities such as fintech, corporate innovation hubs, data science and analytics firms, financial consulting practices, data providers and systems integrators.

16. Further investment in infrastructure projects, such as the provision of high-speed fibre broadband will also help attract new fintech companies as well as helping existing Scottish financial services firms stay ahead of the game. Improved air links to major financial centres is also vitally important if we are to continue to compete as a financial services centre in our own right.

17. Support to encourage the transfer of more FCA regulatory capability, north of the border, is also a key success factor in Scotland being externally perceived to be a financial centre of excellence.

Building and attracting future skills and talent

18. SFE recognises that our highly diverse Scottish financial services ecosystem also needs a diverse workforce to support it. Access to talent, particularly fintech which requires a highly skilled and innovative workforce, is a critical success factor for our sector. We must ensure we have a sustainable pipeline of talent from our schools and universities while also supporting people to reskill, as roles are replaced or transformed by technology. Access to talent from overseas is also crucial.

19. This is a key priority for our industry, which is why SFE is working closely with Scottish universities to help co-create curricula and produce work-ready graduates with the right skills. Eleven universities are involved in SFE’s Skills, Talent and Research (STaR) Network alongside 100-plus member firms and relevant public-sector agencies such as Skills Development Scotland. Importantly, the STaR Network is also looking to promote apprenticeships offering young people an alternative route into financial services and a tool to up-skill and re-skill existing employees across a wide range of subjects, such as business management, IT management, software development and cyber security.

20. There is a benefit in schools, colleges and universities working collaboratively with financial services firms to promote careers and creating a deeper understanding of the types of diverse roles now available in financial services. At the other end of the spectrum, there is a need to develop increased capability to re-skill current employees as the pace of change will demand greater flexibility and multiple careers.

Future Growth Opportunities

21. Fintech through using technology such as artificial intelligence, analytics, digital and robotics are all examples of global opportunities in innovation which the Scottish financial services industry should compete for. Simultaneously, they also constitute threats, as there is considerable ‘early mover’ advantage in all of these for those who achieve breakthrough. Scottish financial services must therefore be in the vanguard of this change and cannot afford to lag behind.

22. North-shoring and near-shoring pose considerable opportunities with potential UK and international investors. Scotland should aim to secure its share of financial services jobs that are migrating out of London into better value locations and also where they have capacity they have offshored in the past; but are now actively seeking to repatriate to the UK. The
characteristic of this type of opportunity in the financial services sector is that there are usually quite large numbers of jobs associated with this type of activity.

23. There are opportunities to grow and expand our existing financial services companies through developing our data science capability, risk management, predictive analytics, investment techniques and analytical capabilities. Doing so provides considerable opportunity to organically grow our existing Scottish based institutions and secure our position as a global financial services market.

24. Scotland has the opportunity to attract large organisations that work in the adjacent spaces often as suppliers to our large financial services companies. Examples of these include the established global technology firms, the large systems integrators, specialist banking software companies, specialist consulting practices, emergent firms arising through regulatory innovation in the payments, data management and businesses in the ‘big data’ space.

25. There is scope for industry and the public sector to work more proactively together to identify targeted opportunities both in the UK and overseas and create a joint, coordinated approach. There is also a need to encourage large technology providers to increase their footprint in Scotland.

**Fintech - how we could become a success story**

26. Scotland is an emerging global fintech centre. The innovators, established players, open culture, collaborative environment, available skillsets, growing talent-base, capital and infrastructure already exist and combine to create a growing fintech centre connected to the international stage and differentiated by its data driven innovation.

27. The financial industry is changing at a pace and like never before. New technologies, increasing access to data and changing customer needs mean that Scotland is now playing a new role. Scotland has all the components required to capitalise on this new fusion of financial services and technology to develop a thriving fintech ecosystem and a global centre of excellence based around data driven innovation, science and analytics.

28. FinTech Scotland has been established to secure Scotland’s place as a significant player and a top five global fintech centre with a focus on data driven innovation. Announcing FinTech Scotland in September 2017 and commencing in January 2018 is one of the most significant developments of SFE’s new Strategy. The organisation has been created through a three-way partnership between the private sector (SFE members), University of Edinburgh and the Scottish Government.

29. FinTech Scotland brings together the ideas and creativity of entrepreneurs and innovators, the resources and experience of the established financial sector, the economic and social objectives of the public sector, the innovation environment of accelerators and incubators, the capital of investors, the capabilities of tech firms, the people development by skills agencies and the research and development from the universities to build a thriving ecosystem to benefit all.

30. The ambition is to become a top five global fintech centre by creating an integrated fintech ecosystem focused on data driven innovation through the provision of funding, support, infrastructure and talent. Creating a fintech ecosystem will provide the opportunity for
business creation, inclusive growth, job opportunities, as well as attracting diverse entrepreneurs and talent.

31. To support Fintech Scotland’s ambition, there needs to be a focused and outcome-based plan for Scottish Enterprise specifically on fintech. Government could also support the alignment of fintech with adjacent activities such as CivTech and Social Enterprise.

32. The proposed establishment of the new Scottish National Investment Bank could be helpful to our emerging fintech sector. To have a local source of patient capital to support these businesses is important as it will ideally provide investment to develop and reach commercial maturity.

33. Scotland has an opportunity to go further by using the FCA Sandbox to drive innovation and job creation in large as well as small financial enterprises, alongside the research and skills development from our universities. While the Sandbox has the potential to enable new financial innovation through Fintech SMEs, it also provides a very strong collaboration model to drive broader growth around data driven innovation.

Summary

34. SFE welcomes the opportunity to contribute to the Economy, Jobs and Fair Work inquiry on Scotland’s Economic Performance. Scotland continues to be one of Europe’s leading financial centres with the industry contributing some £9 billion to the Scottish economy annually. It is recognised for its resilience, innovation and being ably supported by world class professional services. By strengthening financial services - the aim of the five-year Scottish Financial Services Strategy - we will help grow Scotland’s economy and drive inclusive growth. The strategy and vision marks increased collaboration and coordination across the sector and with partners, including the Scottish Government and its agencies. Together, we can grow our industry and build on our global standing, but we must be adaptive and capitalise on the range of opportunities emerging if we are to build on our solid foundations.