



**DISCUSSION SESSION PAPER**

**Session 3: Achieving sustainable economic growth in the financial industry**

**John Swinney MSP, Cabinet Secretary for  
Finance and Sustainable Growth**

**Owen Kelly, Chief Executive, Scottish Financial Enterprise**

**Achieving sustainable economic growth in the financial industry**

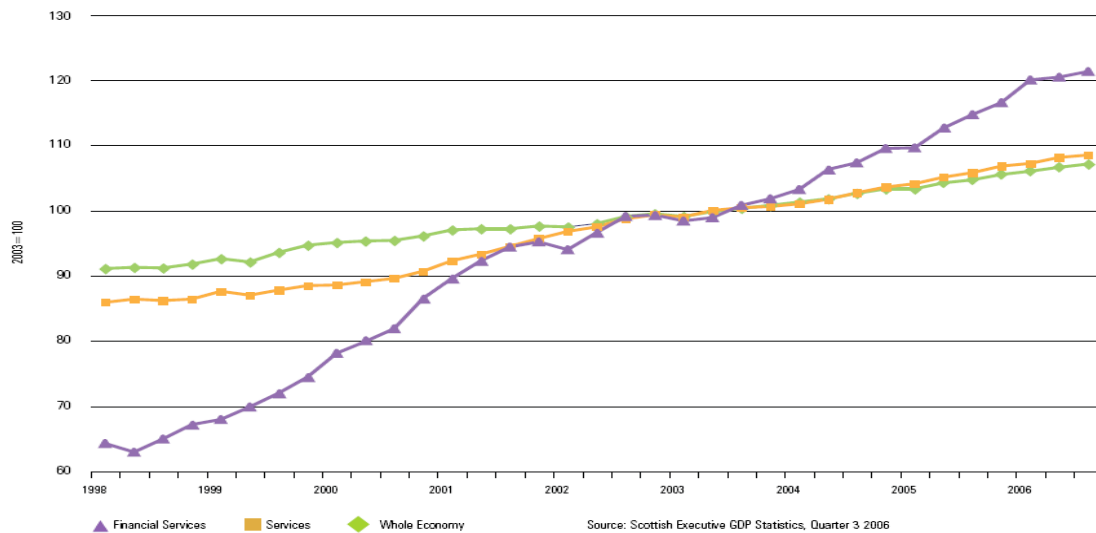
**Hosted by** John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth  
**Chaired by** Owen Kelly, Chief Executive, Scottish Financial Enterprise

**Industry Overview**

The Financial Services industry is of vital importance to Scotland and is the fastest growing sector of the Scottish economy. The industry has grown by 55% since 2000 compared to a growth rate of 13% for the Scottish economy as a whole, and 44% for the UK financial services industry over the same period.

It makes a major contribution to the economy and prosperity of Scotland and contributes over £7 billion to Scottish GDP (see figure 1). It is also a major source of employment and accounts for almost 1 in 10 jobs in Scotland. It employs 108,000 people directly and almost 90,000 in support and related industries. Including other affects, these accounts for more than 220,000 jobs (source: ABI/IO analysis, 2005).

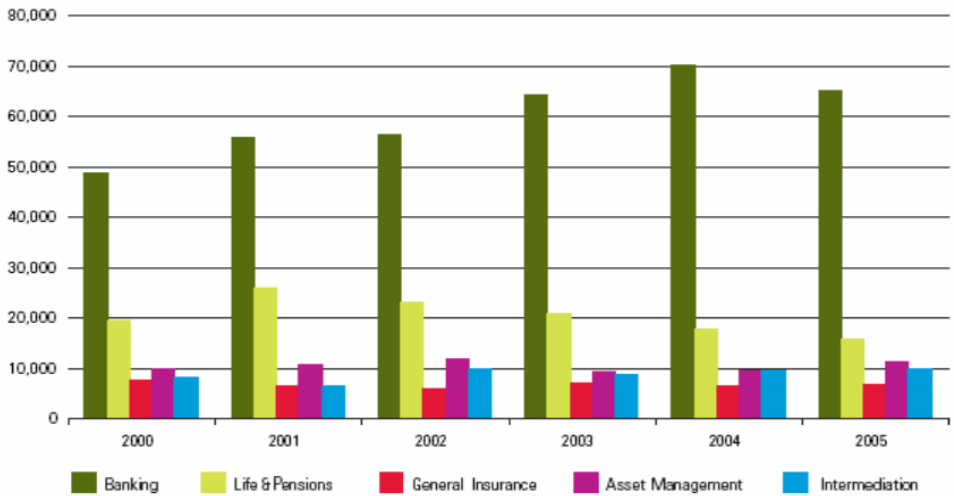
FIGURE 1: GDP Performance in Financial Services 1998-2006Q3



The industry in Scotland has developed as a world class financial services location for a wide range of international activities. Scotland has particular strengths in **Banking** with headquarters of four clearing banks, including the RBS – the world’s fifth largest bank- HBOS, Lloyds TSB and Clydesdale Bank.

Other key sub sectors are **General Insurance, Life Assurance and Pensions** (eg Standard Life, Norwich Union, AEGON, Resolution, Prudential); **Investment Management** (eg Aberdeen Asset Management, Alliance Trust, Baillie Gifford, Martin Currie) and **Asset Servicing** (eg Morgan Stanley, State Street, BNP Paribas, Citigroup and Bank of New York). The graph below provides details of the various main sub sectors.

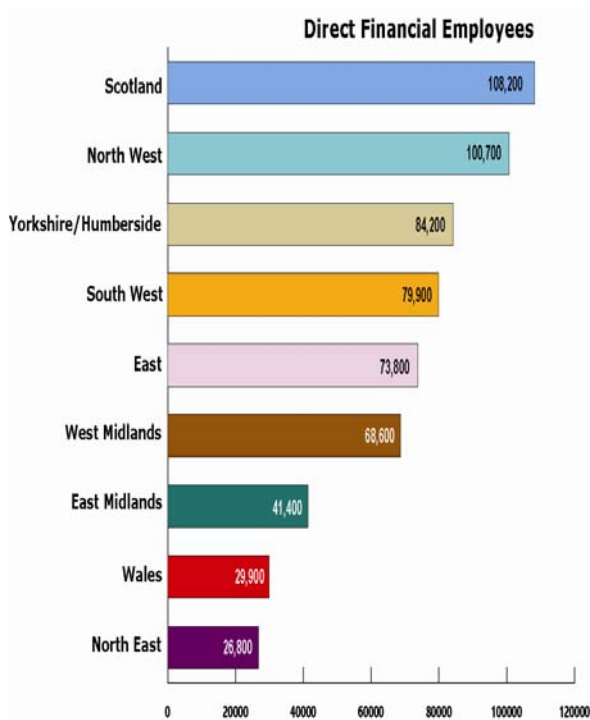
FIGURE 3: FINANCIAL SERVICES EMPLOYMENT IN SCOTLAND BY SUB-SECTOR, 2000 – 2005



Source: Annual Business Inquiry

Scotland is recognised as one of Europe's leading financial services centres, and is the second largest financial region in the UK next to London and the South East as highlighted below (source: Nomis, 2005 based on direct FS employment).

Financial Services was the largest sector for Foreign Direct Investment (FDI) in Scotland last year with over 4,000 jobs secured. It was the strength of the FS sector which resulted in Scotland being ranked the best performing region in the UK next to London in attracting FDI.



## **Strategic Context**

The strategy for the Financial Services Industry in Scotland was originally published in 2005. Uniquely, the strategy was developed by the industry (including Scottish Financial Enterprise, SFE) in partnership with the public sector (Scottish Enterprise and the Scottish Government), trade unions and higher education. The full document can be located at: <http://home.scottishenterprise.net/intranet-home/document-details.htm?cid=63860&pubid=115452>

The custodian of the Strategy is the Financial Services Advisory Board (FiSAB). The Scottish Government has signalled its strong support for this initiative. First Minister Alex Salmond is chair of FiSAB. In addition, John Swinney, Cabinet Secretary for Finance and Sustainable Growth and Jim Mather, Minister for Enterprise Energy and Tourism are both members.

Delivery of the strategy is the responsibility of the Financial Services Implementation Group (FiSIG), the membership of which reflects that of FiSAB. FiSIG is responsible for ensuring the delivery of the current third year implementation plan. This plan sets out the actions, aims and measurements of success to be used in Year 3 of implementing the Strategy under the following three main pillars: People, Profile and Infrastructure with Innovation mainstreamed across all pillars.

## **External Environment**

Although Scotland's Financial Services industry has outperformed other sectors of the Scottish economy, and many of its rival financial services centres around the world, there are significant challenges facing the industry.

The industry is undergoing considerable change resulting in an increasingly competitive environment. Consolidation of companies and operations reflects increased globalisation. The vast majority of major players in the market are competing in a truly global environment. Outsourcing and off-shoring, together with alternative sourcing and the emergence of strategic tier locations are driving much of the current business transformation.

Additionally, regulatory pressures and the need to invest heavily in technology integration requirements are putting real cost and operational pressures on the industry.

The ramifications of the downturn in the US economy and the credit crunch will have some impact on certain sub sectors of the industry although it is too early to assess them in full.

Ultimately, the combined effect on the above will put pressure on companies to maximise returns by increasing efficiencies and reducing costs, increasing the intensity of an already highly competitive business environment.

Scottish Enterprise  
February 2008

## **Key discussion questions to be discussed during the financial industry breakout session**

1. How will global economic trends and issues around the credit squeeze affect the industry?
2. The Strategy for the Financial Services Industry in Scotland has identified 3 key strategic aims based on:
  - People – to strengthen the world-class workforce
  - Profile – to build the industry's profile both within Scotland and beyond
  - Infrastructure – to improve the business infrastructure

Should we concentrate on these 3 areas – are there other areas we should look at?

3. What more can the Scottish Parliament do to create the necessary business- friendly environment to achieve the Government's top objective of sustainable growth?
4. When businesses are at the international competitive edge, and decisions on investment and location are finely balanced – are debates around Scotland's constitutional future helpful, neutral or damaging?
5. What impact might Scottish fiscal policies eg local income tax, have on the industry's ability to attract talented staff and leaders of the future?