

“SIZING UP THE CITY – LONDON’S RANKING AS A FINANCIAL CENTRE”

SUMMARY NOTE

This report, commissioned by the Corporation of London and produced by the Centre for the Study of Financial Innovation (CSFI) was published in June 2003. Based on 274 detailed questionnaire responses and 76 in-depth interviews, it concludes that, in terms of international centre competitiveness, London is some way ahead of Paris and Frankfurt, but it is still second to (albeit statistically neck-and-neck with) New York. Six key attributes were established through the interviewing process and, in the order in which they were ranked, the general findings in relation to each of them are summarised below.

Labour

London scored marginally behind New York in terms of flexibility, size and professionalism, but its flexibility is seen to be under threat from growing labour regulation (e.g. EU’s Social Chapter).

Regulation

London scored particularly well in this area with the New York system being seen as “inhospitable” and those of Continental centres as being “inflexible”. FSA’s competence as a regulator and the advantage of an integrated regulatory structure were particularly valued. However, there is growing disquiet over the burden, intrusiveness and cost¹ of regulation.

Taxation

London was marginally behind New York, but the introduction of a new tax on foreign bank branches, stamp duty on share transactions and proposed changes to the personal tax regime for non-domiciled residents were of concern.

Responsiveness to government

The UK did not score well here. Two-thirds of respondents saw the government as not being supportive of the financial services sector. This concern was driven by perceived anti-City bias, the lack of a “sponsoring” department (and the loss of the Bank of England as City “steward”) and dissatisfaction with the UK government’s performance in dealing with Brussels.

¹ *This concern over regulatory cost corroborates a similar earlier finding of the recent Practitioner Panel Survey “Survey of the FSA’s regulatory performance” November 2002 and has, in turn, been corroborated by the FSA’s own recently commissioned study “Costs of Compliance” (June 2003) carried out by Europe Economics.*

A “light” regulatory touch

While proportionality will be a key feature of “competent regulation” (see above), a “light” regulatory touch is largely an issue for dealings in the wholesale markets (and, for different reasons, small firms). Even so, it is surprising that it did not feature more highly, but it is noteworthy that London scored well against New York for its sensitivity in this area.

Living and working environment

London was again behind New York and Paris, scoring badly on transport, housing, schools and medical facilities, but doing rather better on general atmosphere, openness and culture. Respondents were deeply disquieted over the state of public transport and regarded it as imposing huge costs on the City². London’s growing reputation for crime was perceived as putting some individuals off the capital although, interestingly, its higher risk of terrorist activity did not feature particularly strongly.

In terms of other attributes, the following comments were made.

Market efficiency

Here again, London slipped behind New York. In terms of market breadth and depth, the margin was minimal, but New York was noticeably ahead of London in the area of clearing and settlement.

Cost

The high cost of doing business in the City was regarded as one of its negatives and adding to the pressure to deliver savings in other business areas. For small institutions, it was the top business issue and was forcing them to confront questions as to the continued scale of their London presence. The true cost and benefit of a London presence has not been weighed, largely because of the fact that a London location is perceived to add to an institution’s credibility and prestige. Even so, the high cost of being in London was forcing firms to relocate certain non-City central operations, particularly back office functions, to regions outside London and/or to low cost jurisdictions such as Ireland and Asia.

Europe

The City’s relationship with the Eurozone is seen as important but not critical to its competitiveness, although there is scepticism over the EU’s ability to deliver the single market in financial services and frustration over ill-judged initiatives from Brussels.

² The recent findings of a MORI poll (“Chartered Institute of Management Accountants Membership London Survey”, 9 June 2003) demonstrated that 3 in 5 businesses cited the poor state of transport as a major cause of grievance.

Notwithstanding some of the reservations expressed above, it is still expected to have the best regulatory environment in five years' time, although ill-judged regulatory/government actions or significant deregulation in the US could reduce that expectation - with New York (and not Paris or Frankfurt) as being the likely principal beneficiary of any migration of financial services business from London.

"The City is not in the financial services business, but in the business of providing a good working environment for institutions which are largely foreign-owned". Since such businesses have no particular allegiance to the UK and derive little profit from its domestic economy, if they are to remain located in London, that environment must be sensitive to their needs. This means managing the labour market, regulation and living and working conditions competitively and efficiently and overcoming growing pessimism over London's crumbling infrastructure and high cost as well as over rising taxes.

Selected Quotations

"If it is no longer appealing for non-British wealthy people to be in London, no amount of technology will keep them there." Roger Kubarych,
Senior Economic Advisor,
HVB Group

"We suffer from a government policy which is moving from benign neglect towards unthinking legislation – financial or regulatory" City Chairman

"There is not less regulation here, only better." US investment banker

"The one thing the Brits do well is financial services, yet the government doesn't do anything about it. We'd be all over it." US investment banker

"When Giuliani took over in New York, he said "We're going to fix the subway, and he fixed it!" Here it's, as the Texans say, all hat and no cattle."
Anon

"In Frankfurt, the stress ends where you leave the office. Here, that's when it starts!"
German banker

"One day, some hard-nosed bean counter in a distant HQ might scrutinise the numbers and find them tilted against the City" "Sizing up the City", page 25

"A taxi ride from Heathrow to the West End can cost as much as an economy flight from Frankfurt to London and sometimes take longer." Ruediger von Rosen,
MD, Deutsches Aktieninstitut,
Frankfurt

Anthony Belchambers
Chief Executive, FOA
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