

**The Strategy for the Financial
Services Industry in Scotland**
2007 Annual Report

SUCCESS

People & Infrastructure

| Profile

| Innovation

The Financial Services Advisory Board (FiSAB) is the custodian and advocate of the *Strategy for the Financial Services Industry in Scotland*.

Current members of FiSAB are:

Rt Hon Jack McConnell MSP, First Minister of Scotland – **FiSAB Chair**

Nicol Stephen MSP, Deputy First Minister and Minister for Enterprise and Lifelong Learning

John Campbell – Chairman, Scottish Financial Enterprise (SFE) and Senior Managing Director,
State Street Corporation – **FiSAB Industry Deputy Chair**

Graeme Dickson – Head of Enterprise & Industrial Affairs Group, Scottish Executive

Ian Ferguson – Director of Underwriting, Norwich Union

David Fleming – National Officer, Amicus

Martin Gilbert – Chief Executive, Aberdeen Asset Management plc

Colin Matthew – Chief Executive, Strategy and International Operations Division, HBOS plc

Trevor Matthews – Chief Executive, Standard Life Assurance Limited

Jack Perry – Chief Executive, Scottish Enterprise

Lisa Stephenson – Director, Lloyds TSB Scotland

Ben Thomson – Chairman, Noble Group Limited

Otto Thoresen – Chief Executive, AEGON UK

Margaret Wallace – Managing Director, Morgan Stanley

Willie Watt – Chief Executive, Martin Currie Investment Management Ltd

Observer from HM Treasury

The delivery of the *Strategy* is managed by the Financial Services Implementation Group (FiSIG). FiSIG's membership reflects that of the FiSAB partnership. Current members are: Liz Cairns, Amicus; Steven Cameron, AEGON UK; Danny Cusick, Scottish Development International (SDI); Douglas Greig, Scottish Executive; Amanda Harvie, Scottish Financial Enterprise (SFE); Cathy Malone, Scottish Enterprise; Margaret McGrath, Scottish Executive; Alan Murray, Standard Life; Simon Palmer, Lloyds TSB Scotland; Brenda Rankin, Scottish Enterprise; Sam Walker, Aberdeen Asset Management.

Thanks are also given to: Ken Hogg, AEGON UK; Jon Moore, Scottish Enterprise; Kevin Roberts, Norwich Union; and Morag Watt, Scottish Executive whose work contributed to this Report and who have stepped down from FiSIG during the past year.

Scottish Executive officials provide secretariat support to both FiSAB and FiSIG.

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Ministerial Foreword – First Minister of Scotland

Scotland: achieving shared ambitions – building future success



Welcome to the second Annual Report of the *Strategy for the Financial Services Industry in Scotland*.

Improving Scotland's economic growth is our number one priority. Although financial services regulation is the responsibility of the UK Government, we are continuing to use the powers of the Scottish Parliament to give Scotland an extra competitive edge. Building from the stability in the UK economy, our investment in skills, innovation and infrastructure is driving economic growth in Scotland year on year.

As this Report confirms, Scotland's financial services industry remains one of our major economic success stories. Scotland is a leading European financial centre, home to the global headquarters of some of our foremost financial services companies, and a financial services industry that accounts for almost 1 in every 10 Scottish jobs.

In the past year, the industry has grown at over three times the rate of the Scottish economy. Scottish-based companies have expanded their operations and some of the world's most successful companies have chosen to locate new operations here. Thousands of high quality jobs have been created and, in the face of increasingly fierce international competition for labour and skills, we've continued to attract a growing number of skilled and talented workers and students from all over the world.

The Financial Services Advisory Board, a unique partnership between government, the industry and trade unions, is helping to deliver that success and our shared ambitions for Scottish financial services.

In the last year alone, our work together has delivered high quality training and qualifications to hundreds of people who are already in the industry, or who are looking to build a career there. FiSAB met with University Principals to develop even closer collaboration between the financial services industry and our first class Higher Education Institutions. Initiatives such as Determined to Succeed are ensuring that young Scots are better prepared for life beyond school. And the work that we're doing to increase financial education in schools and financial capability in the wider population will have knock-on benefits for the industry too.

For our part, in government, we've continued our work to improve Scotland's infrastructure even further. Since devolution, direct international air routes from Scotland have more than trebled. Scotland is also connected to more international cities – 21 in 1998 compared to 77 today. This has increased our attractiveness to international investors and connected us as never before to other major financial centres. And we've raised the profile of the industry, showcasing Scotland's excellence in financial services around the world – from Paris and mainland China to Hong Kong and Japan.

Two years after we launched our *Strategy*, we can be pleased about the progress that we have made. But in an increasingly competitive global environment, we cannot afford to sit still.

Our achievements to date have established a strong platform for future success. Now we need to build on that. This report begins that process and sets out a clear direction for the future – not only looking ahead to the actions for the next 12 months, but also setting a strategic approach over the medium and long term.

As First Minister and Chair of the Financial Services Advisory Board, I am committed to working together with the industry, trade unions and wider public sector to deliver those actions and to support our financial companies to achieve our shared ambitions.

A handwritten signature in black ink, appearing to read 'Jack McConnell', written in a cursive style.

The Right Honourable Jack McConnell MSP, First Minister of Scotland

Industry Foreword – John Campbell

Scotland: working in partnership for continuing success and growth



In the highly competitive and fast-changing global environment in which the financial services industry operates, Scotland continues to outperform many of its rival business centres around the world as a preferred location for leading financial services companies.

The reasons for this are clear. Scotland has a long-established and successful international financial services industry with expertise and critical mass across all of the main industry sectors. It has a knowledgeable, talented workforce with a broad, deep skills base supported by its many excellent universities and professional institutions. Scotland is a vibrant hub of financial services innovation. For over 300 years its experts have led the design and delivery of financial products, services and technologies that add value to customers, shareholders and economies around the world. Scotland also provides a cost-effective, stable and secure operational base from which to serve the global market – and the quality of Scotland’s living

and working environment is second to none.

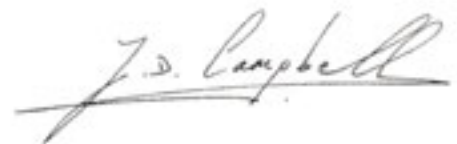
These advantages are well established and well known. However, over the last four years, Scotland has developed another major distinguishing asset which is of significant importance to the financial services industry, particularly given the volatility of the commercial and political world that affects us all.

That asset is the strength of the unique partnership now firmly cemented between government, the industry and trade unions working together to continuously improve the business environment that Scotland provides for financial services companies.

In our first Annual Report we demonstrated the strong progress made in establishing this pioneering partnership and delivering the *Strategy for the Financial Services Industry in Scotland*. In this, our second Report we highlight the extensive work that has been undertaken to develop the *Strategy* over the last 12 months and the main areas that will be our priority going forward.

The benefits of much of this work will take time to realise. However, thanks to the efforts of all of the partners involved, the many financial services companies that are headquartered and located in Scotland are now gaining advantage from increased direct flight connections with other strategic financial hubs, new initiatives to expand the skills pool available to us in Scotland, and a joined-up approach to promoting Scotland as a leading international centre of financial services expertise.

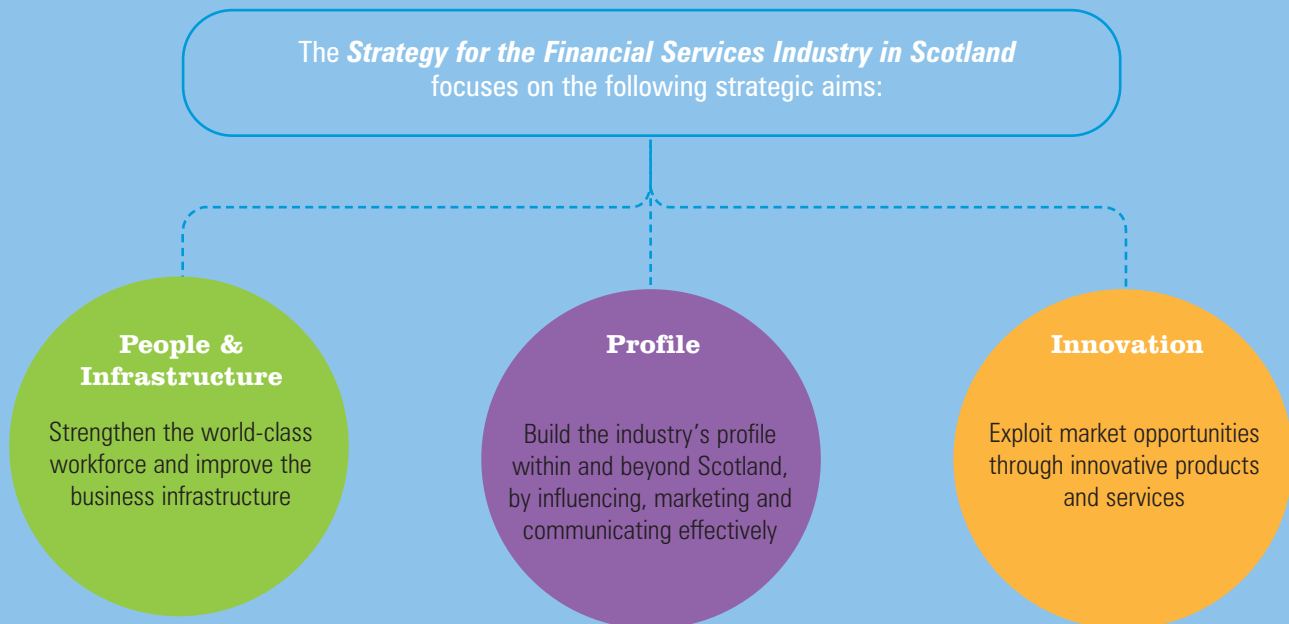
On behalf of Scotland’s international financial services industry, Scottish Financial Enterprise is committed to building further on the success of this partnership to the long-term advantage of the financial services industry and the economy of Scotland. We are delighted that our partners from the public sector and the trade unions share this commitment and we look forward to continuing to work with them to achieve our joint vision.



**John Campbell, FiSAB Industry Deputy Chair
(and Chairman, Scottish Financial Enterprise and Senior Managing Director, State Street Corporation)**

The *Strategy for the Financial Services Industry in Scotland* aims to deliver the vision of:

An innovative, competitive and thriving international financial services industry in Scotland, underpinned by world-class infrastructure and universally recognised as a leader on the global stage.



Effective partnership working across the public and private sectors has delivered progress across all areas.

Overview

Prompted by a shared ambition to build on Scotland's long history of outstanding financial services success, the *Strategy for the Financial Services Industry in Scotland* (the *Strategy*) is an initiative developed and delivered by a unique partnership between government, the industry and trade unions. It reflects a shared recognition that, to remain a competitive location for investment, Scotland must continue to strengthen the quality of business environment it provides for the industry.

The Financial Services Strategy Group (FSSG), established in 2003, set out to define the environment which would ensure that Scotland remains home to an innovative, competitive and thriving financial services industry.

The *Strategy* was a culmination of this work and was launched in March 2005. Chaired at the highest level, by the First Minister of Scotland, a Financial Services Advisory Board (FiSAB), comprising senior figures from the industry, trade unions, government and other parts of the public sector, was set up to be the custodian and advocate of the *Strategy*. FiSAB is supported by the Financial Services Implementation Group (FiSIG) which delivers the *Strategy*.

In May 2006 the first Annual Report was published, highlighting achievements and forward plans together with a look at the continued success of the industry. The Annual Report proved a successful platform to publicise not only the *Strategy*, but also Scotland's position as a leading financial services centre.

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Following on from the success of the first year, year two has continued in the same positive vein. The partnership of FiSAB and FiSIG has gone from strength to strength with all partners contributing to achievements across all three strategic pillars (see diagram opposite). Looking to the future, there is an ambitious agenda for year three and beyond. Innovation will be embedded across a new pillar structure of People, Profile and Infrastructure. Progress and success will be measured over the short, medium and long term.

This is FiSAB's second Annual Report and it provides:

- ▶ a summary of achievements in the second year of the *Strategy*
- ▶ comparative data on the strong progress made by the financial services industry in Scotland
- ▶ an outline of plans for year three and beyond

Achievements

This section details achievements across all three strategic pillars.

● Achievements: Strengthening the world-class workforce

The main focus of activity over the year has been on people and the talent base available to industry. Actions have been geared to: developing workforce skills; raising awareness of the career opportunities financial services offers; ensuring the industry's current and future skills requirements are met; and promoting financial education and financial capability.

providing people with the skills to work in the industry by delivering:

- Modern Apprenticeships and SVQs to more than 150 employees in financial services across Scotland
- eight Telephone Banking courses accredited by the Chartered Institute of Bankers in Scotland (CIOBS) in Glasgow, Edinburgh, Fife and Lanarkshire
- e-mentoring, linking 50 students with employees in the financial services industry: Napier University students have worked with State Street and Lloyds TSB Scotland and students from Lauder College have worked with Intelligence Finance
- Stock Market Challenge to 750 pupils from 150 schools across Scotland, providing a realistic experience of working in a stock market: sponsorship came from Standard Life, JP Morgan, BNP Paribas, Morgan Stanley and Barclays Wealth Management
- the CIOBS Certificate in Financial Services to 220 5th and 6th year pupils across Scotland
- and launching the Scottish Investment Operations Diploma in 'Investment Operations'

Taking the fast track to a career in financial services

To increase the understanding of the financial services industry amongst school pupils, CIOBS now offers the Certificate in Financial Services in schools. The course gives pupils a professional qualification and the possibility of fast track entry to a career in financial services.

Thanks to the success of a pilot at Gryffe High School in Houston, Renfrewshire in June 2005, CIOBS has secured funding from RBS, Clydesdale Bank and Intelligent Finance enabling 220 pupils to participate in the Certificate course during the current academic year.

The Certificate is recognised as counting towards entry to Glasgow Caledonian University's BA (Hons) in Financial Services and Napier University's BA (Hons) Financial Services degree.



Professor Charles Munn congratulates pupils at Gryffe High School on achieving the Certificate in Financial Services.

raising the financial services profile, appeal and range of career opportunities offered by:

- › delivering Financial Services Tours to teachers, careers advisers, Jobcentre Plus staff, career changers and undergraduates in Edinburgh, Glasgow and Fife: over 500 people and 30 companies participated
- › placing 56 teachers into 12 financial services companies this financial year via Careers Scotland compared with 10 placements last year
- › working in partnership with the Insurance and Actuarial Society of Glasgow (IASG) to create a programme of events including sponsored education initiatives, profile raising and showcasing insurance career options for the IASG's 125th year in the city

Raising the profile of financial services careers

The success of the financial services industry is being promoted to teachers, careers advisers, Jobcentre Plus staff, career changers and undergraduates by visiting financial services companies to increase their knowledge of the careers on offer and the skills required.

On average 88% of delegates rate the Tours as excellent and have provided the following feedback:

"The Tour has really expanded my knowledge of financial services industry careers in a practical and positive manner."

"I will use some of the information I have received today on Higher/Advanced Higher courses."

Secondary School Teachers, Glasgow

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"The Tour gave a great insight into the industry and a real feel for the range of opportunities for graduates."

Careers Adviser University of Stirling

ensuring the industry's current and future skills needs are met by:

- › working in partnership with the Financial Services Skills Council to deliver the aims of the *Strategy*
- › providing advice to the industry on the UK points based immigration system and Fresh Talent, which has attracted over 3,300 international graduates to gain work experience in Scotland
- › launching the financial services microsite on the Talentscotland website (www.talentscotland.com) featuring company spotlights and current vacancies: to date around 1,500 individuals have registered across 80 countries

Enhancing Scotland's highly skilled financial services workforce through Fresh Talent

Hazel McAllister, Experienced Recruitment Scotland Manager at PricewaterhouseCoopers, has been working closely with the Scottish Executive on the Fresh Talent initiative since it was launched almost two years ago. She says, *"the professional services sector in the UK is currently facing a skills shortage, and this scheme gives us access to a wider pool of highly skilled individuals. So far we have recruited two new team members who, having studied here in Scotland and enjoyed their time so much they chose to remain and work here. The scheme has been highly beneficial both to our firm, and the individuals who have joined us."*

One of our Fresh Talent Recruits Arda Yakici recently described his decision to stay in Scotland, saying, *"I am attracted to Scotland due to its beautiful environment and high standards of living. People are friendly and warm hearted. I decided to live in Scotland without hesitation. It has great opportunities with regards to finance and accounting professionals like myself."*

building a more financially capable population by:

- ▶ working with the Scottish Centre for Financial Education (SCFE) to develop 'A Framework for the Further Development of Financial Education in Scottish Schools' which details how the industry and public sector can further support this agenda
- ▶ supporting the Financial Services Authority's (FSA) financial capability initiative in a range of workplaces including Enable Scotland, Stagecoach UK Bus, BSKyB, AEGON UK and Scottish Power
- ▶ Lloyds TSB Scotland (LTSB Scotland) partnering Young Scot to improve the financial capability and access to financial services for young people across Scotland: working with the FSA, LTSB Scotland is the first bank to accept the Young Scot card as a recognised form of identification to open a bank account
- ▶ providing leadership to the new financial capability Task Force which will research and design a national generic financial advice service: Otto Thoresen, Chief Executive, AEGON UK is heading the Task Force
- ▶ bringing knowledge and perspective from the banking sector to HM Treasury's Financial Inclusion Task Force through Susan Rice, Chief Executive, LTSB Scotland

Focusing on financial capability

Otto Thoresen, Chief Executive of AEGON UK and FiSAB member, is leading the HM Treasury Task Force to ensure that everyone can easily access good generic quality financial advice. Speaking at the launch of the task force Otto said, *"I am delighted that the Economic Secretary to the Treasury has asked me to lead this feasibility study. The Government is clear about the benefits generic financial advice can bring. My role in chairing the study will be to provide realistic answers as to how it can be made to work in practice."*

Attracting fresh talent to Scotland

The financial services industry plays a major role in welcoming and integrating migrant workers. Lloyds TSB has taken a number of innovative steps to make accessing the UK banking system as simple as possible:

- simplified and streamlined account opening processes
- product literature published in Polish to ensure the terms and conditions of products are fully transparent
- foreign nationals employed in customer facing roles to meet diverse customer needs



School pupils enjoy the live trading floor in 'Stock Market Challenge'

● **Achievements: Improving the business infrastructure**

Transport and communications connectivity are vital to supporting the success of the financial services industry: both in enabling the efficient flow of people to and from their workplaces and to improve the ease of doing business in and from Scotland. Achievements over the last year include:

addressing industry transport and connectivity priorities by using FiSAB and FiSIG's influence to:

- emphasise the importance of transport in facilitating economic growth: when the National Transport Strategy (NTS) was published on 5 December 2006 it placed growing the economy as its top priority. The NTS also recognised the potential value of high speed rail links to London and on to Europe
- ensure flights supported by the Route Development Fund (RDF) connect Scotland with key global financial services locations. New flights from Scotland announced this year include Boston, Zurich, Madrid, Munich, Brussels and Milan. In addition a new commercial route between Glasgow and London City has been announced by British Airways
- push the case for high speed links by contributing to Scottish Enterprise's blue-sky study on Economic Potential from High Speed Links Between Scotland's Cities
- ensure that new technologies such as wireless hotzones cover key financial services locations in Scotland
- achieve Royal Assent in January 2007 for delivery of the Glasgow Airport Rail Link

Collaborating to compete

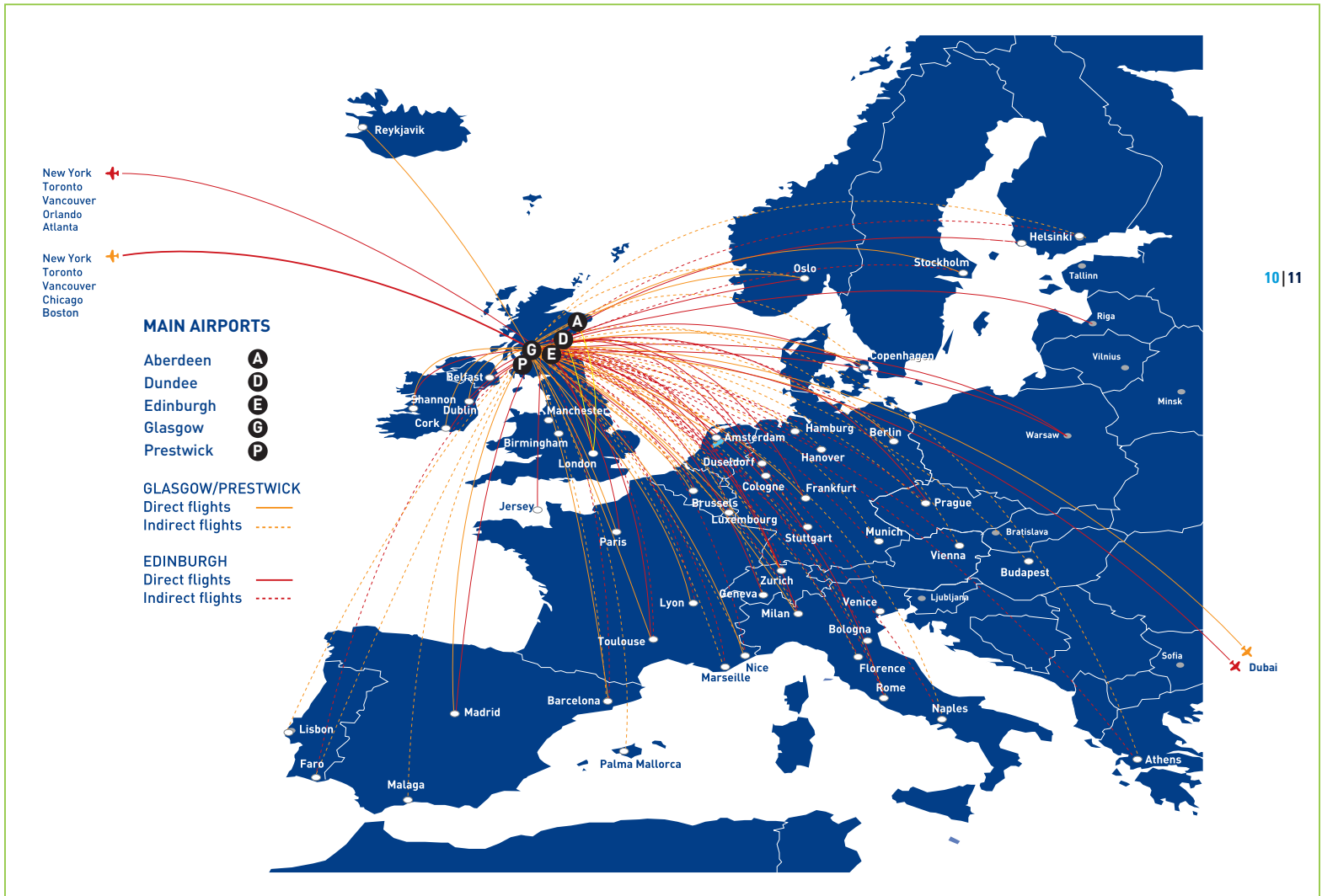
Edinburgh and Glasgow are collaborating to maintain and build on the success that both cities have recently enjoyed. But the collaboration is about more than the central belt. The initiative is working to ensure that Scotland benefits from greater connectivity through mobile and wireless technology and from the promotion of high speed links and improvements to existing connections. FiSIG is supporting these key drivers of success which are priorities for the financial services industry.

Planning and regulation are also important drivers for the continued competitiveness of Scotland's international financial services industry. Over the year:

- the financial services industry has welcomed the prioritising of major projects and the scrapping of third party right of appeal proposals in new planning legislation
- FiSIG has put in place an intelligence system to highlight Scottish regulatory issues of importance to the industry
- difficulties in using Confidential Invoice Discounting (CID) in government contracts were examined and work will now be taken forward in conjunction with the banks to resolve the issues and promote the use of CID

Improving Scotland's global connectivity

The Route Development Fund has been used to increase direct air connections from Scotland to a range of key financial services destinations. Over the last year alone, direct services have been secured to destinations including Boston, Zurich and Madrid – all identified as priority routes for the industry in SFE's 2005 report on the Connectivity Needs of Scotland's Financial Services Industry. Added to this, Scotland is connected to all key global financial services markets directly or indirectly through major transport hubs including London, Amsterdam and Dubai.



Footnote the map: map shows key financial services and business connections from Scotland

● Achievements: Building the industry's profile

A major effort has been channelled towards building the industry's profile over the year, with success evident in record investment and expansion, finalising the *Strategy for the Financial Services Industry in Scotland: Communications Plan*, engaging with the Chancellor of the Exchequer's High-Level Group on Financial Services and raising the international profile of Scotland as a location for the industry. Key achievements include:

investment and expansion in Scotland's international financial services centre

- ▶ Scottish Enterprise Network and SDI activity to promote Scotland as a financial services centre, showcase Scotland's reputation for offering a world-class workforce, attract new investors into Scotland and encourage expansion has met with record success over the year. The last 12 months have seen major investments by a significant number of international companies including Barclays Wealth Management, JP Morgan, ACE Insurance and First Data
- ▶ in addition, there has also been significant expansion by a number of Scottish based companies including Alliance Trust and moneyQuest
- ▶ in total more than 3,500 financial services jobs have been secured through inward investment and assisting the expansion of indigenous firms, establishing Scotland as the best performing region in the UK
- ▶ Regional Selective Assistance has proved crucial in helping home grown companies grow and persuaded major international companies to locate and prioritise business investment in Scotland

Harnessing Scottish expertise to influence the financial services environment in Europe

During the past 12 months, Scottish Financial Enterprise (SFE) has been further increasing its engagement in Brussels to ensure the needs of Scotland's financial services industry are understood and the industry's expertise is utilised by policy makers in the European Commission. The industry body led a series of high-profile events that provided financial services companies with the opportunity to meet with leading politicians from across EU Member States and senior officials from the Commission. A top priority for SFE was influencing the outcome of the White Paper on the EU Framework for Investment Funds – of great importance to the Scottish-based fund management sector. Aberdeen Asset Management's Group Head of Legal was a member of one of the Commission's expert groups and, in November 2006, Charlie McCreevy, European Commissioner for the Internal Market and Services, delivered his keynote speech on the White Paper at an SFE industry event in Edinburgh. Afterwards, in private meetings, he agreed further priorities with the organisation and its member companies. During the coming year, SFE will be working with Scottish MEPs to increase industry engagement with the European Parliament, in addition to continuing to take forward its work with the Commission.



Commissioner Charlie McCreevy, EU Commissioner for the Internal Market and Services speaking at a Scottish Financial Enterprise industry event in Edinburgh on 20 November 2006

successfully engaging with the Chancellor's High-Level Group on Financial Services:

- › Scotland's interests are now encompassed within this new initiative
- › FiSAB and FiSIG members are represented on various working groups relating to the Chancellor's initiative. Martin Gilbert, Aberdeen Asset Management and Sandy Crombie, Standard Life are members of the High-Level Group along with Sir Fred Goodwin of RBS. Amanda Harvie, SFE is a member of the UK Trade and Investment (UKTI) Financial Services Sector Advisory Board and Danny Cusick, SDI is a member of the UKTI Regional Forum

raising Scotland's international profile as a leading financial services location:

- › Financial Services Forums in Shanghai, Hong Kong and Tokyo explored global opportunities for Scotland's financial services industry
- › a high profile seminar in the British Embassy in Paris to promote Scotland's strengths in financial services was organised by SDI and supported by SFE
- › on his first official visit to Scotland as EU Commissioner for the Internal Market and Services hosted by SFE, Charlie McCreevy delivered the keynote speech on investment management and met with leaders from across the industry
- › the financial services skills agenda was promoted at the Microsoft Government Leaders Forum Europe, held in the Scottish Parliament in January 2007 – the first time the event has been hosted in the UK and within a parliamentary institution

Global Horizons – Finance Minister supports China Initiative

SDI organised Round Table Discussion Forums in Shanghai and Hong Kong to develop a deeper understanding of the opportunities for Scotland's financial services industry as the market in China opens up fully in line with World Trade Organisation requirements.

These events were hosted by Scotland's Minister for Finance and Public Service Reform, Tom McCabe MSP and supported by SFE. Representatives from some of the major Scottish & UK financial services companies already operating in China participated in the discussions including RBS, Martin Currie, Standard Chartered Bank, Standard Life, Aberdeen Asset Management and Royal & Sun Alliance. In addition to the events, SDI and SFE also met with related trade associations in Shanghai and the Shanghai Metropolitan Government to explore further opportunities for Scotland's financial services industry and to promote Scotland's financial services expertise.



Tom McCabe MSP, Scotland's Minister for Finance and Public Service Reform speaks at Round Table event

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Growing Success – First Data International establishes new operations centre in Glasgow

A global leader in electronic commerce and payment services, First Data International expects to create more than 430 financial services jobs in Glasgow over the next five years. First Data International serves hundreds of the world's most innovative card issuers in nearly 70 countries across six continents. The company offers a comprehensive portfolio of payment services and the new facility in Glasgow will deliver contact centre services, including card applications and activations, customer support as well as loyalty and fraud management programmes in support of First Data's UK banking clients.

Welcoming First Data International to Scotland in February 2007, First Minister Jack McConnell commented: *"First Data International's commitment to Glasgow and this superb new facility is a strong endorsement of the financial services industry in Scotland."*

Simon Rubin, Managing Director of First Data International's operations in the UK, added: *"We chose Glasgow for our new centre as we believed that it would offer us the ability to recruit high calibre personnel. The quality of applicants has exceeded our expectations and we are delighted with the superb working environment created for our staff."*

● Achievements: Supporting innovation

Scotland is renowned as a leading centre of financial services excellence with a long history of innovation across all industry sectors. Successful financial services firms embed a culture of innovation into the fabric of their organisations – from strategy and process, to people, systems and business partnerships – actively turning new ideas into commercial reality.

Over year two, industry innovation has been highlighted by SFE's *The Innovators Awards*, with the overall winner marking a global first for Scotland. Scottish Executive SMART and SCORE grants together with advice and assistance from the public sector have also nurtured innovation. Year two achievements include:

- completion of a supply network mapping study updating knowledge and awareness of the technology demands of the financial services industry in Scotland
- delivery of a follow-up event bringing together leading financial services providers and indigenous Scottish technology supply companies to provide an opportunity for suppliers to develop contacts and business and showcase their products and services
- creation of *Fast Forward – The Scottish Financial Services Futures Forum*, a programme of topical futures discussions bringing together leading industry experts and thinkers led by SFE. The inaugural event will be launched in April 2007
- a highly successful dialogue between FiSAB and University Principals focusing on the potential for greater collaboration between financial services and Universities – two of Scotland's most successful and globally renowned sectors

Enhancing the indigenous technology supply network

Standard Life hosted a successful event in November 2006 at its global HQ in Edinburgh for indigenous Scottish technology supply companies. Alongside the host, representatives of RBS, HBOS, AEGON UK, Bright Grey, Baillie Gifford and Computacentre offered one to one workshops for 18 of Scotland's growing technology supply companies providing advice, feedback and opportunities for participating supply companies to develop contacts and business with the leading financial services institutions.

"I'm impressed by the level of innovation"

Robbie McLaren, Senior Innovation & Research Manager, HBOS

".....a well conceived idea, very valuable, tremendously well organised and enjoyable!"

Paul Irvine, BLOXX Ltd



HBOS and Rocela 'one on one' at the supplier event in November 2006 hosted by Standard Life

SFE *The Innovators* overall winner marks a global first for Scotland

RBS won *The Innovators 2006* with a revolutionary new solution for making small payments of under £10 without the need for cash. The Contactless Payment by Card ('Contactless') process involves a radio antenna embedded within the plastic of the debit card, resulting in a straightforward 'tap and go' process with each cash transaction taking less than a second. After successful trials in Edinburgh and London, the concept, which was developed with MasterCard, is set to be rolled out to a wider market soon. *The Innovators* judging panel described Contactless as the biggest payment innovation since the debit card replaced the cheque, improving speed and security and removing the drawbacks of cash for everyday transactions.

The Innovators is the initiative from SFE, in partnership with Ernst and Young, to celebrate Scotland's innovation in financial services.



RBS, winners of *The Innovators* for their Contactless Payment by Card entry. Pictured left to right are Jeremy Abbot, Chris Morson and David Rockliffe

Building on successful collaboration with Universities in Scotland

At FiSAB on 6 February 2007, Scotland's Universities and the financial services industry, described by the First Minister as "*two of Scotland's most prized assets*" agreed to collaborate even more effectively in the future.

Following the meeting, the Deputy First Minister said "*this collaboration will keep Scotland at the global centre of expertise and innovation and gives us the strongest possible opportunity to expand into the giant economy of China.*" Sir Muir Russell, Principal of Glasgow University and Convenor of Universities Scotland said "*Scotland's Universities are grateful for the opportunity to work with the financial services industry to ensure that we continue to offer the graduates they need, with the right skills and understanding of business.*"

Continued success

By any measure, Scotland is enjoying outstanding success as a financial services centre: Aberdeen Asset Management, HBOS, RBS and Standard Life all have their global headquarters here; half of the world's top 10 banks have substantial operations across Scotland; and international firms such as Alliance Trust, Aviva and BNP Paribas are supported by their operations in Dundee and Perth. Added to this, over the past year, major Scottish and international companies have significantly increased their operations or invested in Scotland including Alliance Trust, moneyQuest, ACE Insurance, Barclays Wealth Management, First Data International and JP Morgan. Industry surveys bear this success out, with the SFE Quarterly Survey of Scotland's Financial Services Industry, sponsored by Capgemini, for Quarter 4 of 2006 showing that a majority of responding companies increased business levels for every quarter in 2006. Future prospects are also positive with nearly two-thirds of businesses anticipating improved confidence for the year ahead.

Summary

Scotland's financial services industry is one of the fastest growing sectors of the Scottish economy and the summary chart shows it performing strongly against UK benchmarks. Figures 1 to 5 provide the detail set out in the summary chart.

Indicator	Performance of the Financial Services Industry in Scotland relative to:		
	Scottish Economy	UK Economy	UK Financial Services
Growth in GDP (2000-2006Q3)	▲	▲	▲
Growth in employment (2000-05)	▲	▲	▲
Median Earnings (2006)	▲	▲	▼
Growth in Median Earnings (2000-06)	▲	▲	–
Proportion of the Workforce Educated to Degree Level (2006)	▲	▲	▼
Growth in the Proportion of the Workforce Educated to Degree Level (2000-06)	–	▲	▲

Notes: ▲ indicates that the financial services industry in Scotland has outperformed the comparator sector in question (Scottish Economy, UK Economy and UK financial services). ▼ indicates that the financial services industry in Scotland's performance has been lower than that of its comparators. – indicates no change

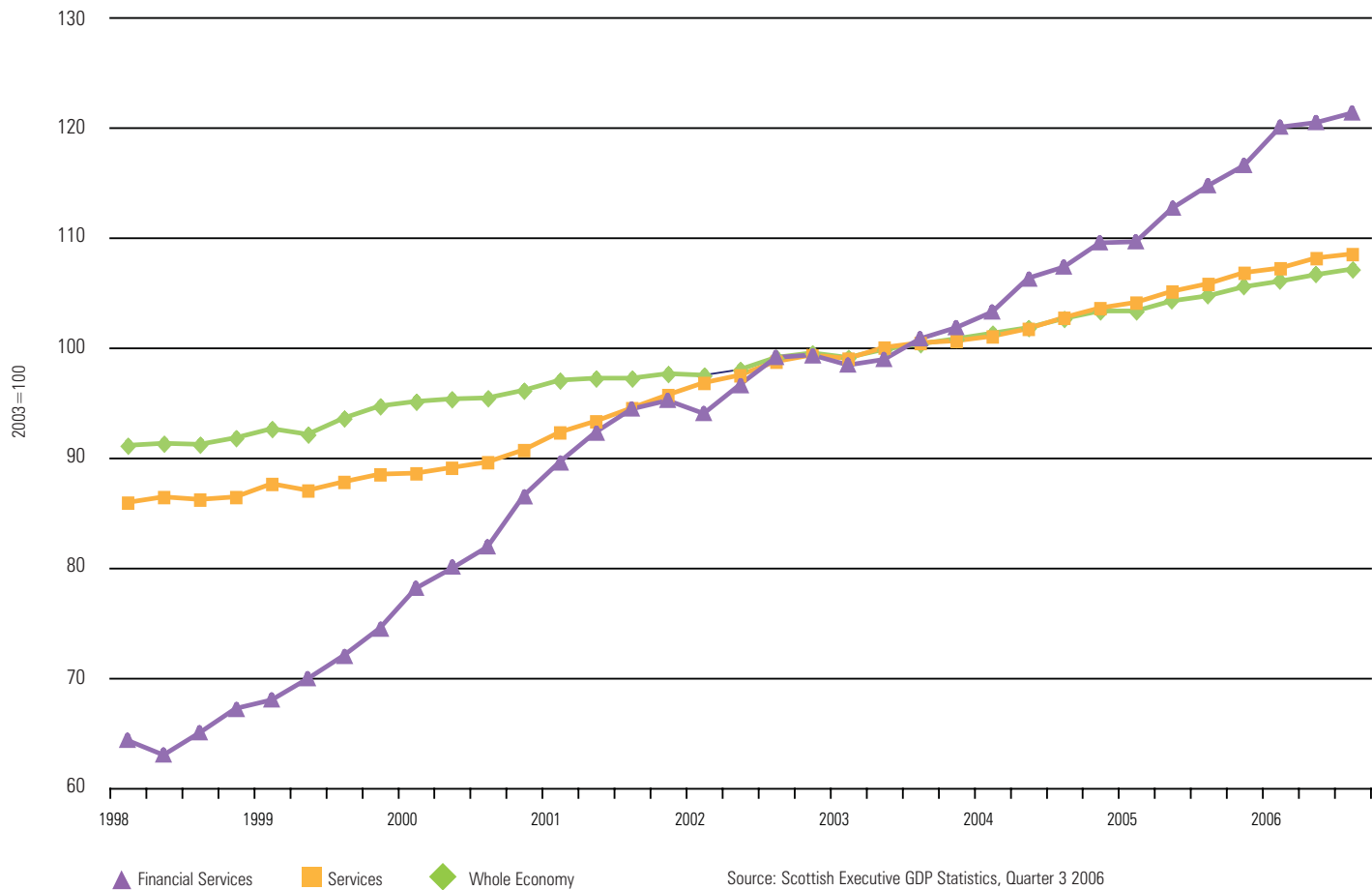
Detail and sources for individual measurements are contained in figures 1-5.

Contribution to the economy

The financial services industry in Scotland now contributes around £7 billion (7%) to Scottish Gross Domestic Product (GDP)¹. Since the start of 2000 the financial services industry in Scotland has grown by 55% while the overall Scottish economy grew by 13%. In the same period, the UK financial services industry grew by 44%.

More recently, the industry in Scotland grew by 7% in the year to 2006Q3, in line with the UK financial services industry and three times faster than the wider Scottish economy, which grew by 2.3%.

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



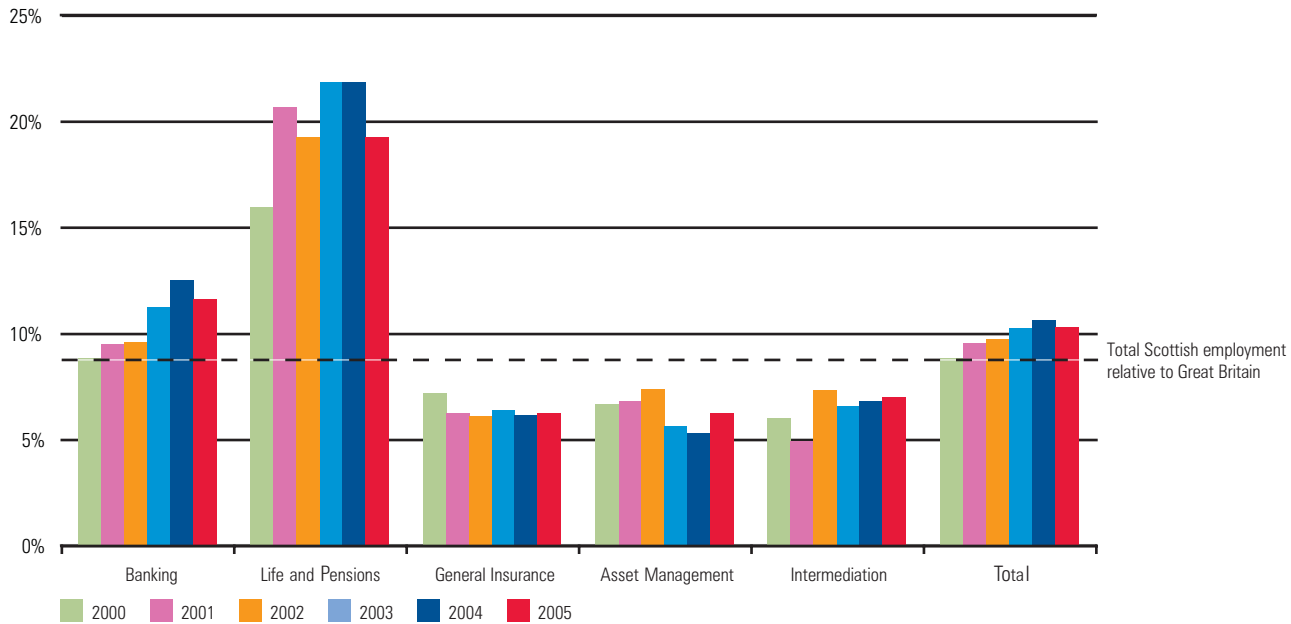
¹ GDP is measured as Gross Value Added (GVA)

Employment

Employment in Scotland's financial services industry stood at just over 108,000 in 2005 (latest available data), indicating a small decline on the previous year. Over the same period, employment in the UK financial services industry also decreased.

Figure 2 illustrates Scotland's share of financial services employment in Great Britain for each industry sub-sector. Since 2000, Scotland's share of financial services employment in Britain has risen from 8.8% to over 10%.

FIGURE 2: FINANCIAL SERVICES EMPLOYMENT IN SCOTLAND RELATIVE TO GREAT BRITAIN BY SUB-SECTOR, 2000 – 2005



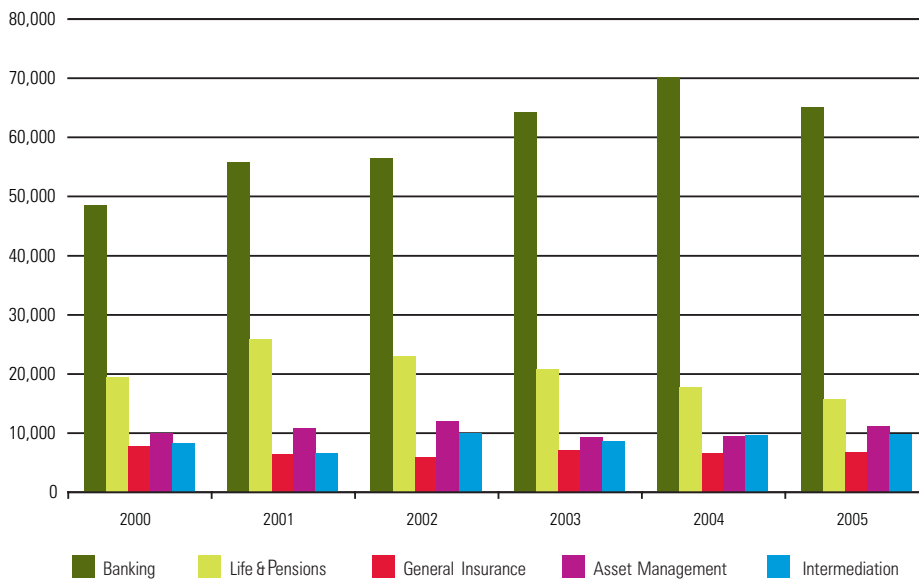
Source: Annual Business Inquiry

In addition to employing 108,000 people directly the financial services industry in Scotland also supports indirect employment of around 90,000 in other industries. Including other effects, the financial services industry accounts for around 9% or almost one in ten Scottish jobs.

Figure 3 shows absolute employment levels during the period 2000 to 2005. Employment varied across the individual sectors of the industry as follows²:

- Banking increased by 34% to 65,100
- Life and Pensions fell by 19% to 15,600, mainly due to restructuring³
- General Insurance fell by 14% to 6,600, while maintaining its UK share
- Asset Management rose by 12% to 11,100
- Intermediation saw an increase of 20% to 9,700

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



Source: Annual Business Inquiry

² Banking – SIC codes 65.11, 65.12, 65.21, 65.22; Life & Pensions – SIC codes 66.01, 66.02; General Insurance – SIC code 66.03;

Asset management & Securities Broking – SIC codes 65.23, 67.11, 67.12, 67.13; Intermediation (the activities of IFAs and insurance agents & brokers) – SIC code 67.20.

³ The Joslin Rowe Scottish Financial Services Recruitment Review 2007

Earnings

Between 2005 and 2006, full-time median⁴ financial services earnings in Scotland rose by 7.5% to £26,400. During this period median earnings in the rest of Britain's financial services industry increased by 2% and earnings in the wider Scottish economy grew by 5%.

FIGURE 4: MEDIAN EARNINGS BY OCCUPATIONAL STRUCTURE 2006

Occupational Structure	Scotland Financial Services		Scotland – All Sectors		GB Financial Services		GB – All Sectors	
	% of sector	Earnings	% of sector	Earnings	% of sector	Earnings	% of sector	Earnings
Managers and Senior Officials	31%	42,000	13%	32,900	34%	48,800	16%	35,000
Associate Professional and Technical	13%	27,000	15%	26,100	16%	33,200	15%	26,900
Administrative and Secretarial and Sales and Customer Service	46%	17,600	21%	16,200	40%	18,300	21%	16,900
Other*	9%	32,100	51%	21,600	9%	38,400	48%	22,200
Total	100%	26,400	100%	22,600	100%	30,800	100%	23,700

*Other includes a wide range of occupations, and in financial services, includes professional occupations such as actuaries and economists.

Source: Annual Survey of Hours and Earnings 2006

Qualifications

The quality of the workforce within Scotland's financial services industry also continues to increase. The industry has a higher proportion of University-educated workers than either the Scottish or UK economies as a whole. The proportion of workers with degree-level education or above has risen from 19% in 2000 to approximately 27% in 2006. The Joslin Rowe Scottish Financial Services Recruitment Review 2007 noted that the concept of "growing your own" key staff continued to form an important element of recruitment strategy with 60% of organisations sampled expecting to operate specific graduate recruitment and 40% school-leaver recruitment in 2007.

FIGURE 5: QUALIFICATIONS 2006

Qualification	Scotland Financial Services		UK Financial Services		Scotland – All Sectors	UK – All Sectors
	Number	% of sector	Number	% of sector	% of sector	% of sector
Above SVQ 4 – Degree or Higher	33,000	27%	343,000	28%	21%	22%
SVQ 4 – Higher Education below degree	18,000	14%	76,000	6%	15%	10%
SVQ 3 – A level or Equivalent	44,000	36%	338,000	28%	30%	24%
SVQ 2 GCSE A-C or Equivalent	22,000	18%	356,000	29%	17%	23%
SVQ 1 and below*	7,000	6%	108,000	9%	18%	21%
Total	124,000**	100%	1,222,000	100%	100%	100%

* This includes those with SVQ level 1 qualifications, other qualifications and no qualifications. Those with unknown qualifications have been removed from the analysis. Estimates are rounded to the nearest thousand. Workforce includes all those over 16 and in employment.

** LFS data is based on individuals' perceptions of the industry they work in. ABI is the preferred measure of industry employment as it is based on an employer survey.

Source: Labour Force Survey 2006 Spring Quarter

⁴ Median earnings are the midpoint of the earnings distribution. This is preferred to average earnings as the latter can be skewed by a small number of high earners.

International benchmarking

It is essential that Scotland's financial services industry – and the success of the *Strategy* – is measured against international comparators. As was reported in the 2006 Annual Report, the strength of Scotland's financial services industry is monitored using a range of indicators that were developed by FiSAB and FiSIG. One of these measures indicates that in 2005, the industry's exports to foreign countries were valued at over £1.1 billion. This represents 6% of total Scottish exports, and almost 23% of total Scottish services exports. Additional measures are set out in figures 6 and 7.

The industry's current performance and the change in its performance against a number of comparators is summarised in figure 6. This extends the analysis presented in the 2006 Annual Report by including a larger number of international comparators plus comparisons with other UK regions. Figure 7 provides further indicators of how the wider economic environment in Scotland compares to other industrialised economies. Comparator locations are OECD members and include major economies such as the USA, Japan and Germany. Since 2000, Scotland has improved its international ranking across the range of measures.

FIGURE 6: FINANCIAL SERVICES BENCHMARKING

	Scotland Financial Services			Regional Comparisons		
	Number of Comparator locations	Scotland's Position	Change in position since 2000	Number of Comparators	Scotland's Position	Change in position since 2000
Share of total employment (2005)	29	7	▲	11	2	–
Employment Growth (2000-05)	27	4	N/A *	11	2	N/A *
Contribution to GVA (2004)	26	4	▲	12	2	▲
Exports per worker (2003)	23	3	–	UK as a whole	1	–
Average Earnings (2005-06)	21	8	▼	11	4	▲

* N/A indicates that no comparative figures are available

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FIGURE 7: SCOTLAND'S GENERAL BUSINESS ENVIRONMENT BENCHMARKING

	International Comparisons		
	Number of Comparator locations	Scotland's Position	Change in position since 2000
GDP Per Head of Population (2004)	30	16	▲
Productivity – GDP Per Hour Worked (2004)	26	12	▲
Total Entrepreneurial Activity (2005)	21	10	▲
Percentage of Graduates In Population aged 25-64 (2004)	30	11	▲
Net Migration as % of Population (2005 or last available year)	26	10	▲

Notes and Sources:

Employment: ABI Employee Analysis and OECD Employment by activities and status. **GVA:** ONS Regional Accounts and Eurostat National Accounts. **Exports:** ABI Employee Analysis, Global Connections Survey, OECD Statistics on International Trade in Services Volume 1 and OECD Employment by activities and status. Export growth is over the period 2002-2003. Scottish Exports include sales to the rest of the UK. Exports at the sectoral level are not available for other UK regions. **Earnings:** ONS Annual Survey of Hours and Earnings and Eurostat Labour Cost database. International data is for 2005, regional comparisons are for 2006. **GDP per Head:** OECD (2006) OECD Statistical Compendium, ONS Regional Accounts. **Productivity:** OECD (2005) International Comparisons of Labour Productivity Levels and ONS (2006) Productivity First Quarter 2006. Change in position is from 1999. **Entrepreneurial Activity:** Global Entrepreneurship Monitor (GEM). The GEM identifies the proportion of working age adults who are either setting up or have been running a business for less than 42 months. **Graduates:** Labour Force survey and OECD, Education at a Glance, Change in position is from 1999. **Net Migration:** OECD (2006) OECD Factbook, GROS Mid-year estimates.

Looking to the future: Year three and beyond

The *Strategy* has been successfully implemented over the last two years, with significant progress made towards achieving the vision for the financial services industry in Scotland. During year two, the *Strategy* was reviewed by FiSAB which agreed that it remains valid and concentrates on the areas where partnership working can ensure the right conditions for financial services to continue to succeed in Scotland. However, as the partnership has matured and global financial services markets have been responding to new demands, the challenges set by FiSAB and FiSIG will be stepped up.

Achievements to date provide the platform to launch strategic plans going forward. A new approach to year three will look ahead, not only to the next 12 months, but tactically at aspirations for the medium (2-4 years) and long (5+ years) term. Mechanisms will be built in to the new approach to test the *Strategy* and its actions against market conditions in the medium to longer term. Issues being considered in developing the year three plan include:

- ▶ the kind of industry Scotland wants ten years from now
- ▶ the skills and infrastructure the industry will require
- ▶ the existing actions within the *Strategy* that need to be refreshed and developed
- ▶ the new areas of activity that need to be added to the *Strategy*

The detail of that medium and long term vision will be articulated over the next 12 months.

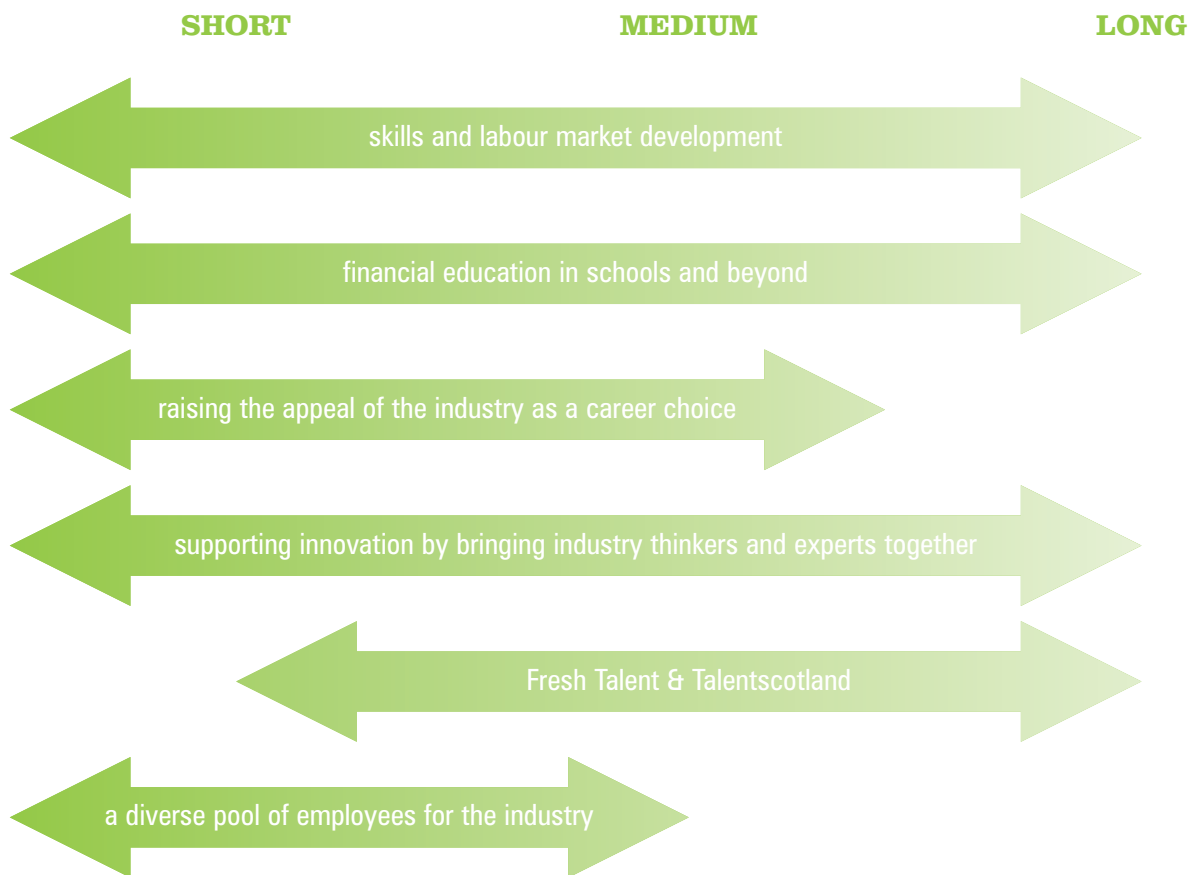
In recognising that innovation is integral to the financial services business model, a new pillar structure has also been devised for year three. The new pillars are People, Infrastructure and Profile: innovation will become a cross-cutting theme.

The following pages provide an outline of the areas of activity that FiSIG will take forward in the short and medium term to ensure the achievement of the long term vision of: **'an innovative, competitive and thriving international financial services industry in Scotland, underpinned by world class infrastructure and universally recognised as a leader on the global stage'**.

● Looking to the future: People

People, in terms of a quality talent pool and educated customer base, are central to the success of the *Strategy*. The industry needs to attract and retain a skilled and diverse workforce with the ability to work creatively and productively in a fast changing and highly competitive global environment. The industry also needs customers who can make informed decisions about financial products and services. The development and provision of skills and education must not be constrained by conventional delivery models. Work will continue across the FiSAB and FiSIG partnerships to develop and deliver creative and flexible solutions to provide the financial services workforce and customers with the information and tools they need now and in the future.

Activity in year 3 will focus on:

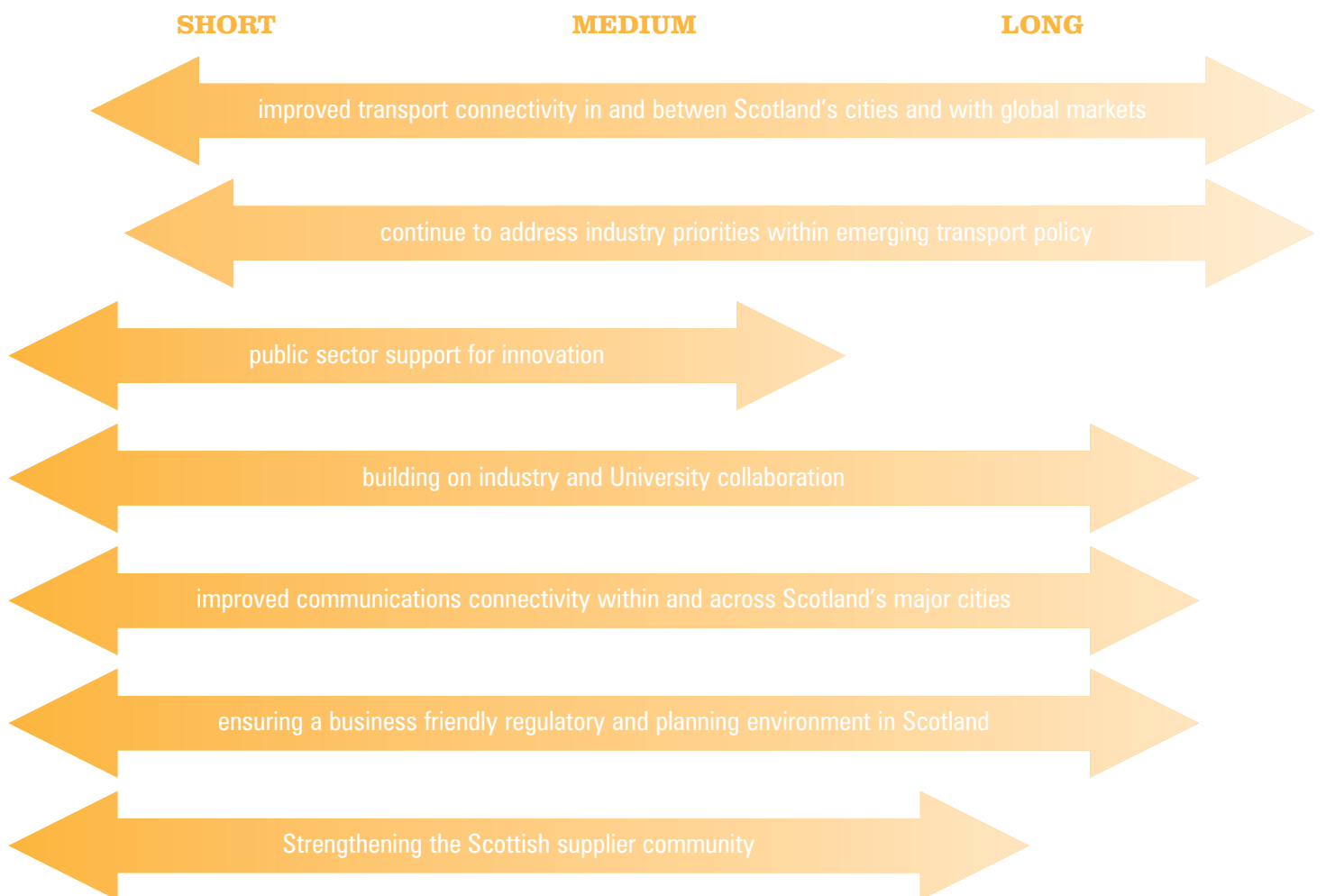


● Looking to the future: Infrastructure

The financial services industry in Scotland competes on the global stage, serving markets around the world. The industry needs a secure, highly competitive operating base from which it can do business at home and abroad. The public sector has an over-arching responsibility to ensure the right business environment in Scotland, and the FiSAB and FiSIG partnerships are ensuring that the public sector listens to, and gains advantage from, the views and advice of the business community. This provides Scotland with a unique opportunity to develop the infrastructure which the industry needs to maintain a strong competitive advantage.

Innovation is key to sustaining and growing market share in an increasingly global economy where emerging centres and markets provide challenges as well as opportunities. How people travel to work, undertake their work and communicate with colleagues and customers will potentially undergo the most radical changes in the long term. FiSAB and FiSIG will continue to work in partnership to identify the main issues to be addressed and the experts with whom to collaborate – particularly in the academic world. This will ensure that in Scotland the financial services industry benefits from the most competitive business environment possible to exploit the challenges of the future.

Activity in year 3 will focus on:





SCOTTISH EXECUTIVE

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