

**A Strategy for the Financial  
Services Industry in Scotland**

# SUCCESS

People & Infrastructure

Profile

Innovation



one  
scotland  
SCOTTISH EXECUTIVE

## Membership of the Financial Services Strategy Group

### Jim Wallace QC, MSP (Chair)

Deputy First Minister and Minister for Enterprise and Lifelong Learning



**David Wallace,**  
Director of Operations



**Paul Day,**  
Managing Director



**David Henderson,**  
Group Chief Executive



**Ben Thomson,**  
Chief Executive



**John Quigley,**  
Scottish Regional Secretary



**Mark Wood,**  
Chief Executive, Prudential UK and Europe



**Patrick Snowball,**  
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**Bill Dickson,**  
Director of Group Projects



**Mary Campbell,**  
Chief Executive



**Jim McFarlane,**  
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Scottish Enterprise Edinburgh and Lothian



**David Thorburn,**  
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**Amanda Harvie,**  
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**Peter Wood,**  
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**Sandy Crombie,**  
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Governor, Bank of Scotland



**John Campbell,**  
Senior Vice President



**Susan Rice,**  
Chief Executive



**Sandy Boyle,**  
Deputy General Secretary



**Willie Watt,**  
Chief Executive

## Mission

To align the public and private sectors, to develop and deliver a long term shared vision and strategy, in order to sustain and maximise the success of the financial services industry and its contribution to Scotland's prosperity.

## Aims of the Group

- ▶ Through the success of the firms comprising the industry, to strengthen Scotland's position as a leading financial services centre and thereby maximise the industry's contribution to Scotland's economic success.
- ▶ To foster an economic and social environment which encourages the development of the industry and responds to its priorities, making it attractive for firms to choose and maintain Scotland as a key operating base.

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## Ministerial Foreword

Scotland's financial services industry is a tremendous success story of which we can feel justly proud. Scotland is the most important UK financial services centre outside London with a worldwide reputation for excellence. Growing the economy is this government's top priority, and the continued success of the financial services sector will be crucial in achieving that objective.

But the competitive pressures within this truly global industry are intense and securing that success will require public and private sectors to act in concert. In this spirit, the Financial Services Strategy Group was proposed by industry and established in September 2003. Its aim was to develop a strategic view of the industry's long term potential and development needs, as well as setting out short, medium and long term actions to help realise that potential. I believe this strategy does just that.

It complements our overarching Framework for Economic Development in Scotland and chimes with our vision of Scotland as a global European nation: modern, highly-skilled and competitive, with world-class locations supported by excellent transport links. Building on the formidable reputation of our

financial services industry, we can showcase the best of modern Scotland while playing to one of our traditional strengths.

This will require a continued commitment to skills and our most precious assets: our schools, colleges and universities. Given the competitive challenges we face, we must nurture our home grown talent but also look to attract talented people from elsewhere. The financial services industry will benefit greatly from our Fresh Talent initiative, but I am clear that it will also be key in acting as a 'magnet' for attracting and retaining such talent.

It has been a privilege to chair the Financial Services Strategy Group and I extend my thanks to all those involved in helping create this strategy. I look forward to continued partnership as we deliver the action plan and to seeing the benefits flow to our industry, our economy and the people of Scotland.

A handwritten signature in blue ink that reads "Jim Wallace". The signature is written in a cursive style and is positioned above a horizontal line.

**Jim Wallace QC, MSP**

Deputy First Minister and Minister for Enterprise and Lifelong Learning



## Steering Group Chair's Foreword

The financial services industry is both wide and deep in Scotland. It serves locally and reaches globally. Scottish players are leading change within their sectors not just here, but in the UK and internationally.

The industry is one of Scotland's great success stories; our job was to create a framework to keep it that way. The Financial Services Strategy Group set out to define the environment which will ensure that Scotland is home to an innovative, competitive and thriving industry in the future. Global and domestic pressures on the industry, and a fluid competitive environment, informed the FSSG debate.

The strategy looks both to the near-term and the future. Midst an ambitious suite of action plans, the single biggest achievement has been establishing an ongoing partnership across the industry, the public sector and the unions.

This is a very good beginning to a relationship which we hope has a long life. I thank all of the FSSG participants for their hard work, focus and valuable input. It was stimulating to chair the

Steering Group and I am especially grateful to its members, to Bill Black who was its chair in the early months, and to the Working Party.

Financial services doesn't often evoke great excitement with the public at large. Yet this industry gives a great deal back to Scotland through employment, taxation, inward investment, philanthropy and through some of its lustre. The excitement which we now prompt will come from putting these plans into practice and seeing and monitoring tangible benefits.

The work is only just beginning. Collectively, we want an environment which supports today's firms, attracts new ones and provides a base from which all of them can effectively operate, in Scotland and around the world.

A handwritten signature in blue ink that reads "Susan Rice". The signature is fluid and cursive.

**Susan Rice**  
Chief Executive, Lloyds TSB Scotland

# Executive Summary

Scotland's financial services industry is a cornerstone of the Scottish economy. Its success is an enormous achievement. This success is built upon the capabilities of the companies operating here, the dedication and endeavour of the people who work in the industry and the reputation of Scotland as an excellent place to do business.

However, past success is no guarantee of future success and neither industry nor government can be complacent. There are major global opportunities for Scotland and we will work to maximise them. We face challenges, and we will meet these head on.

Our ambitious vision, created by a unique partnership of industry, trade unions and the public sector is 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.**



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.

### People & Infrastructure

Strengthen the world-class workforce and improve the business infrastructure.

### Profile

Build the industry's profile within and beyond Scotland by influencing, marketing and communicating effectively

### Innovation

Exploit market opportunities through innovative products and services



Our vision outlined in this Strategy for the Financial Services Industry in Scotland sustains and maximises the industry's success and the impact it makes on the Scottish economy. We will achieve it by ensuring that the right competitive environment continues to flourish in Scotland. Three strategic aims support our vision and are built on promoting competitiveness. Through partnership action we will:

- ▶ strengthen the world-class workforce and improve the business infrastructure
- ▶ build the industry's profile within and beyond Scotland
- ▶ support and encourage innovation within the industry

Scotland's financial services industry is already world class. Our Strategy aims to keep it that way, with firms choosing to operate in Scotland and grow their businesses from Scotland.



## Introduction

Scotland's international financial services industry is a success story to be proud of:

- ▶ it makes a major contribution to the life and economy of Scotland, generating £5 bn (nearly 6%) of Scottish GDP
- ▶ it accounts for 9.3% of Scottish jobs, employing 108,000 directly and almost 90,000 more in a range of related industries. Including other effects, this amounts to more than 220,000 jobs in Scotland
- ▶ it is one of the fastest growing sectors of the Scottish economy. In the last five years financial services in Scotland grew by 36.5%, almost four times faster than the overall Scottish economy and twice as fast as the whole of the UK financial services industry

Scotland is now one of Europe's leading financial centres and the UK's second largest financial services hub after London. Many global financial services companies are headquartered and located in Scotland, recognising the benefits of easy access to the key London and European markets and servicing worldwide markets.

Scotland has built on its long history of innovation and international excellence in financial services. Today it has particular strengths in banking, life assurance and pensions, investment management and asset servicing. It also has vibrant general insurance, corporate finance and broking services sectors, and a strong community of professional advisors and suppliers.

The Financial Services Strategy Group (FSSG) led the development of this strategy (details on flyleaf). This group of industry leaders, trade unions and government formed a unique and equal partnership, committed to using their respective strengths to enable the financial services industry to continue to flourish in Scotland.

This strategy sets out an ambitious vision for the future of the industry in Scotland. Created collectively by the industry and the public sector, it is a plan for sustaining and maximising the industry's success and the impact it makes on our economy.



## **AEGON**

**The Scots' renowned financial acumen proved a major attraction to Dutch insurer AEGON when it was looking at ways of entering the UK market back in 1994. Like the Scots, the Dutch favour a no-nonsense, down-to-earth and prudent approach to business management.**

**The comparatively low cost of an Edinburgh base, availability of skilled labour and easy transport links to London, have been important contributory factors to the group's success.**



Scotland's International Financial Services Industry  
Driving Economic Growth



performance

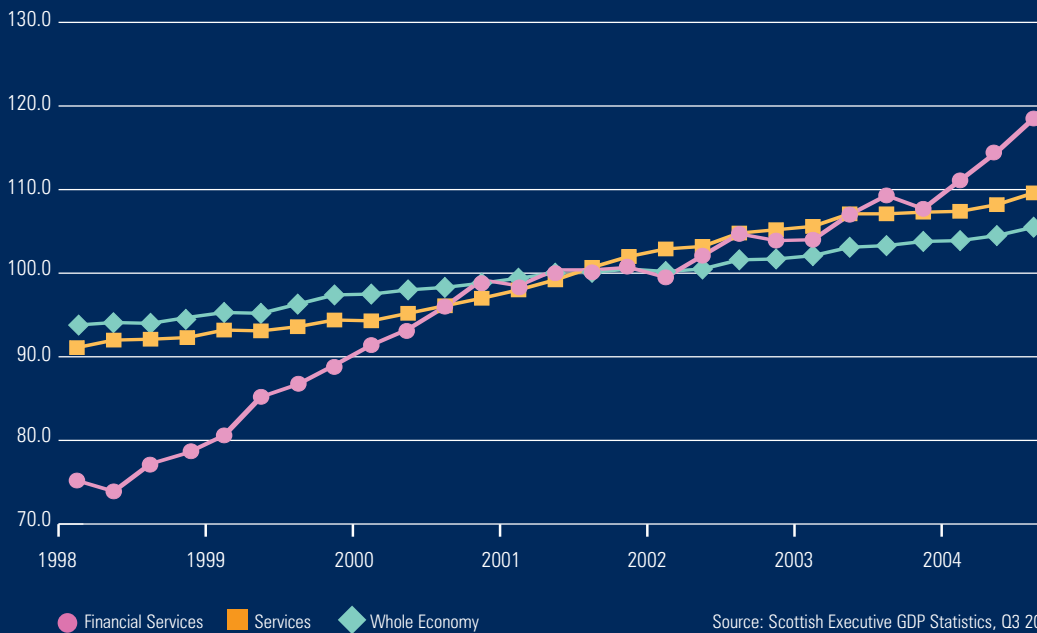


## Economy

Recent growth has been impressive. Year on year, the industry has grown faster than the service sector and overall Scottish economy since 1998 (see fig 1).

As a wealth creator, Scotland's financial services industry continues to lead the rest of the economy. In 2003, it generated £5 bn for our economy, equivalent to nearly 6% of output.<sup>1</sup> In the last five years<sup>2</sup> financial services in Scotland grew by 36.5%, compared with growth of 9.5% in the overall Scottish economy and 17.5% in the UK financial services industry as a whole.

FIGURE 1: GDP PERFORMANCE IN FINANCIAL SERVICES 1998-2004 Q3



<sup>1</sup> Measured as Gross Value Added (GVA)

<sup>2</sup> Comparing the annual change from Q3 1999 to the same quarter in 2004

The industry's overseas activities generate an increasing proportion of Scotland's export sales with around 50 per cent of the total output of the industry exported beyond Scotland.

Growth in the financial services industry has helped restructure our economy, complementing changes in other industries and creating new employment opportunities. Substantial charitable contributions from the industry also support social enterprise and community enrichment across Scotland.

## Employment

Financial services employment makes a major contribution to Scotland's economy. The industry accounts for some 9.3% of Scottish jobs, employing 108,000 directly, almost 90,000 more in a range of related industries and including other effects, over 220,000 in total.<sup>3</sup>

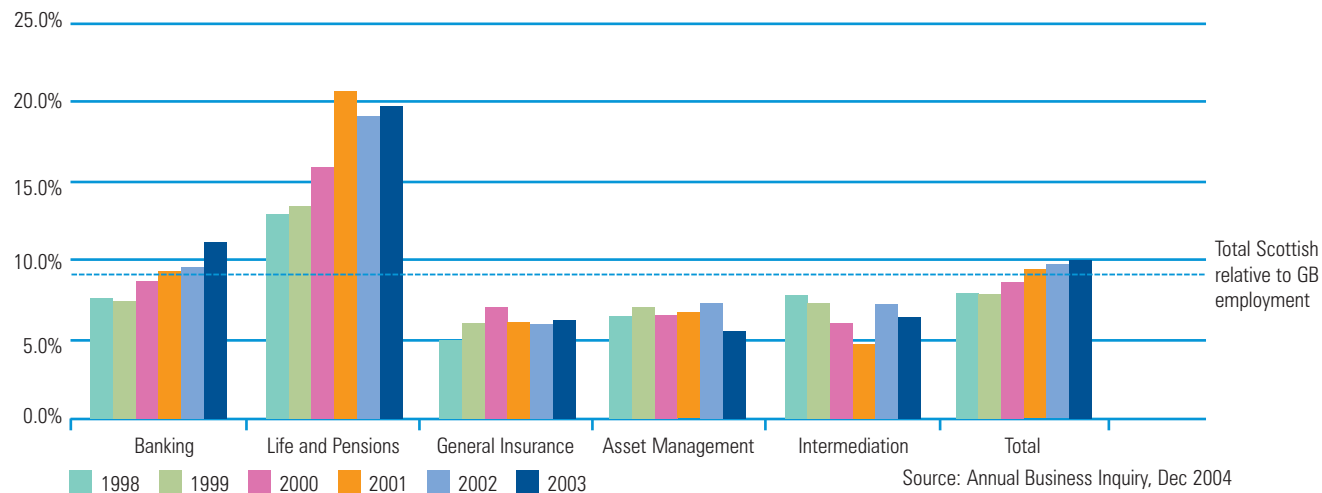
Almost 90,000 jobs are supported in sectors such as:

- business services
- utilities
- transport
- hospitality

Some 40,000 of these jobs are in professional services such as accountancy, legal services and computing.

Over the last five years, Scottish financial services employment has grown at a faster rate than Scotland's overall employment and employment in the rest of Britain's financial industry. Ten percent of Britain's financial workforce is based in Scotland, the biggest employment centre after London (Fig 2)<sup>4</sup>. Relative employment growth has been most pronounced in banking and life and pensions. However, Figure 2 also reveals a levelling of the growth curve, which suggests that sustaining current employment growth may be more challenging in future.

FIGURE 2 FINANCIAL SERVICES EMPLOYMENT IN SCOTLAND RELATIVE TO GREAT BRITAIN BY SUB-SECTOR, 1998 TO 2003



<sup>3</sup> Taking into account the economic contribution of the wages and spending of financial sector workers.

<sup>4</sup> See glossary for details of employment categories

## LLOYDS TSB SCOTLAND

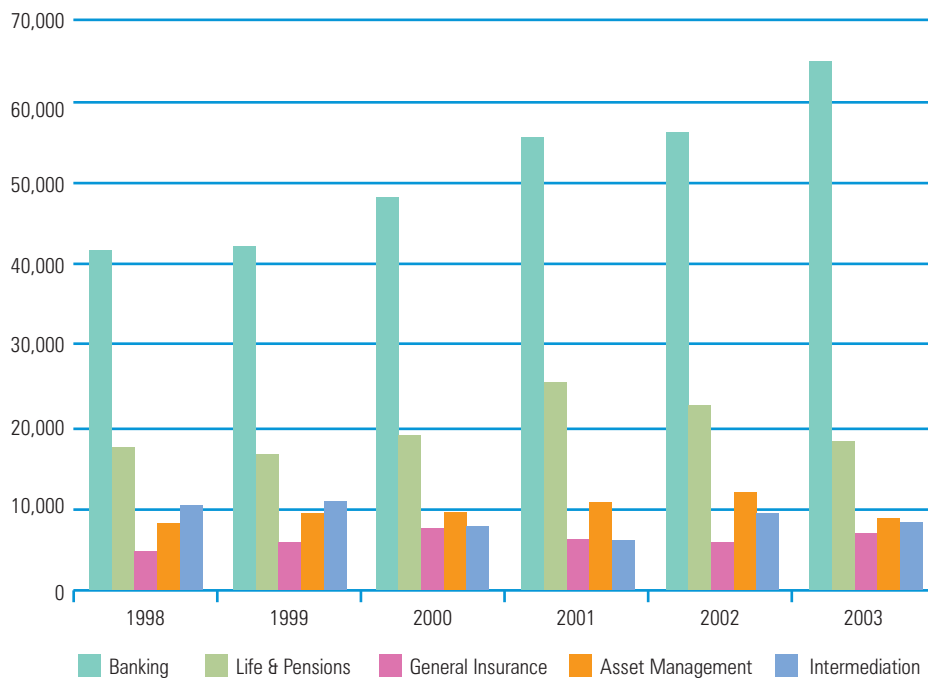
As a major bank headquartered in Edinburgh, and owned by a UK-based global financial services company, Lloyds TSB Scotland's structure and size give it autonomy of decision-making and speed of response.

Responsibility for its own market encourages innovative development of new products and services which the parent organisation can then adopt. It also prompts a strong commitment to the Scottish community. The Bank helps fund the Lloyds TSB Foundation for Scotland which grants up to £7 million annually to grass root charities across Scotland.

As a devolved entity which is entrepreneurial in response to its market, and can draw on its parent's strengths, Lloyds TSB Scotland has delivered more than 50% growth over the last four years.

Figure 3 shows the absolute numbers for employment. Increases in banking employment have been the main driver for the steady increase in overall financial services employment in Scotland over the past 6 years.

FIGURE 3 FINANCIAL SERVICES EMPLOYMENT BY SUB-SECTOR, 1998 – 2003



Source: Annual Business Inquiry, Dec 2004

## HBOS

The high standard of living in Scotland is a key factor in helping HBOS attract the best talent in financial services to live and work here. It also attracts the best Scottish graduates who wish to remain in Scotland rather than seek work elsewhere. In addition to salary, benefits and career opportunities, prospective employees want to know that where they live and work will offer a good education for their families, ease of travel to and from work, affordable housing and a rich and vibrant cultural scene, which is one of the reasons that HBOS invests in the arts.

### Quality jobs, Quality people

The financial services industry not only provides high volume employment, it provides high quality employment that is crucial to a strong economy. Table 1 shows that average earnings are higher in financial services than the Scottish average, across a range of occupational groups. This gives the industry a strong competitive advantage in attracting new staff into financial services.

TABLE 1: MEDIAN EARNINGS BY OCCUPATIONAL STRUCTURE

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	28%	37,000	12%	30,000	33%	44,000	15%	32,000
Associate Professional and Technical	14%	30,000	16%	25,000	15%	32,000	14%	25,000
Customer Service, Sales and Administrative	50%	16,000	22%	15,000	43%	17,000	22%	16,000
Other**	8%	31,000	51%	20,000	10%	34,000	49%	21,000
Total	100%	22,000	100%	21,000	100%	28,000	100%	22,000

\*\*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, April, 2004

Average earnings in Scotland are more competitive than the UK financial sector as a whole. This is combined with Scottish financial services staff being better qualified compared with the UK sector average and the rest of the economy. As table 2 shows, a higher proportion have post-secondary education.

TABLE 2: QUALIFICATIONS

Qualification	Scotland Financial Services		UK Financial Services		Scotland - All sectors	UK - All sectors
	Number	% of sector	Number	% of sector	% of sector	% of sector
Above NVQ4 - Degree or Higher	28,000	24.1%	307,000	25.3%	17.8%	19.0%
NVQ 4 - Higher Education below degree	16,000	13.4%	76,000	6.3%	15.3%	9.7%
NVQ 3 - A level or Equivalent	41,000	35.0%	336,000	27.7%	30.4%	24.6%
NVQ 2 GCSE A-C or Equivalent	21,000	18.3%	346,000	28.5%	15.7%	21.9%
NVQ 1 - below grade 1 or Equivalent	1,000	0.9%	39,000	3.2%	3.2%	5.0%
Other Qualifications*	10,000	8.3%	110,000	9.0%	17.6%	19.8%
Total	117,000	100.0%	1,214,000	100.0%	100.0%	100.0%

\* Other qualifications includes professional, vocational and foreign qualifications that are not matched to NVQs.

Source: Labour Force Survey, November 2004

This powerful combination of high quality and cost-effectiveness makes Scotland an attractive location for financial services.

### A strong cluster

Scotland's financial services industry is strongly clustered around the neighbouring cities of Edinburgh and Glasgow, with high concentrations of employment in both.

This clustering generates benefits beyond employment including:

- ▶ knowledge flows
- ▶ linkages among companies
- ▶ professional support networks

Together, these benefits enhance competitive advantage for companies, the industry and Scotland.

Financial services is a cornerstone of Scotland's economic life and has been so for over 300 years. Government and industry now recognise the need to support the financial services community more actively to secure an equally vibrant future.

The Challenge

challenge



Scotland has many strengths as a financial services centre, particularly for companies that want a UK base. However there are challenges too, and government and industry need to act to overcome them. A recent PEST<sup>5</sup> analysis highlighted:

External trends impacting on Scotland and the rest of the UK financial services industry:

- ▶ growing regulatory regime (European and UK)
- ▶ strong global competition
- ▶ changing customer preference and behaviour
- ▶ pressure to maximise returns by increasing efficiency and reducing jobs, especially in life and pensions and intermediation

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Risks associated with the concentration of:

- ▶ life and pensions
- ▶ businesses controlled outwith Scotland
- ▶ large companies
- ▶ customer contact jobs

Changes in the Scottish financial industry over the past 10 years:

- ▶ divergence of company strategies
- ▶ mergers and acquisitions

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<sup>5</sup> Analysis of the industry's Political, Economic, Social and Technological environment, commissioned by FSSG 2004

A SWOT analysis<sup>6</sup> highlighted a number of major strengths. Scotland's heritage and long experience as a financial centre, combined with a high quality living and working environment, present an appealing proposition for employers. Further attractions include good availability of highly skilled staff and strength at all levels of Scottish education: from schools through to further and higher education institutions. Moreover, Scotland is an ideal location from which to access London and mainland European markets. However, the SWOT also identified the pressures of the global marketplace. These present a dual threat to Scotland as a financial services employer:

- ▶ pressure to reduce costs by reducing jobs
- ▶ overseas competitors offering plentiful, well-educated, low cost labour

Offshoring is often perceived as presenting risks to a number of functions. Contact centres and call centres are well-publicised targets, but highly skilled jobs, including some back office financial processing, may also be at risk. However, Scotland has a good record in attracting call and contact centres and we recognise that offshoring decisions are complex and not simply based on cost savings. Therefore Scotland should use its strengths to maximise the opportunities and minimise the risks to its company base, by:

- ▶ promoting the success of companies in Scotland
- ▶ developing workforce capability
- ▶ investing in financial education



## **RBS**

**Now one of the world's leading financial services conglomerates and ranked fifth in the world by market capitalisation, The Royal Bank of Scotland began trading in Edinburgh in 1727 and opened its first branch in Glasgow in 1783.**

**In 2000 the Royal Bank of Scotland acquired National Westminster Bank plc, in the biggest takeover in the history of British banking, to create a huge Group, with a highly diversified portfolio.**

**Today The Royal Bank of Scotland Group's importance in the banking sector is firmly reflected in its long and distinctive history.**



## STANDARD LIFE

Standard Life has been based in Edinburgh since its inception in 1852 from which time it has developed into a major global company. It remains very proud of its Scottish roots which have enabled the business to grow and diversify successfully.

In this challenging environment, neither government nor industry can be complacent. Together, we have an opportunity to build on our past success to create a financial community where:

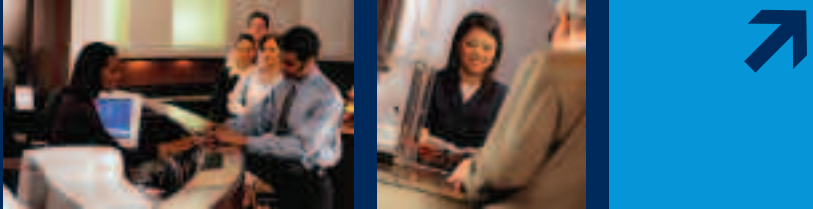
- ▶ more of the best people want to work
- ▶ people share and exchange ideas more often
- ▶ more organisations want to invest

In short, we want to create a world-class business environment that exceeds companies' expectations and supports their successes, so they choose to be in Scotland and grow their businesses from here.

Our Vision

A lighthouse with a red and white striped tower stands on a small, dark island in the middle of a vast blue ocean. A bright beam of light emanates from the top of the lighthouse, extending towards the left side of the frame. The sky is a clear, light blue, and the water shows gentle ripples.

vision



Scotland has a long, impressive record in financial services. Now we want to go further. Building on our existing strengths, industry, the trade unions and the public sector want to work together to maximise the industry's success and its contribution to Scotland's prosperity. This strategy is our shared plan for achieving our ambitions.

Our vision is 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.

This is an ambitious vision, but we are confident we can achieve it. We are not starting from a blank page; Scotland is already a major player in the international financial services community, and many of the necessary elements are already in place to make our vision a reality.

We want financial services to continue to be a major wealth creator in the Scottish economy. Despite the increasingly competitive nature of the industry and its products, we believe the financial services industry is well placed to maintain its strong position in the Scottish economy. With partnership action from the industry and the public sector, we are convinced that the financial services industry can continue to:

- ▶ make a positive contribution to economic output
- ▶ maintain relative strength in financial services employment, both within Scotland and the UK financial services sector
- ▶ provide high quality employment and career opportunities, attracting new employees and retaining talented staff

Scotland's appeal as a base for global and regional headquarters will be crucial. Headquarter operations strengthen the supply network and create quality employment, whilst projecting Scotland as a dynamic, globally-focused economy. We will strive to create an environment in Scotland that nurtures and attracts headquarters.



## MARTIN CURRIE

Martin Currie, an Edinburgh-based specialist investment manager has recently reported record new business, leading to a 31% rise in funds under management and a doubling of profits. The roots of the company's current success go back four years, during the worst bear market in 25 years. With a clear vision for the business and an ambitious strategy for growth, it began an extensive programme of change, including: refocusing the business; strengthening and reorganising the investment team; developing the company's range of products; re-branding the company to reflect the renewed vibrancy of the business; and reinvigorating the business culture.



### **Competitiveness is the key**

For continued success, Scotland's financial services industry must remain competitive domestically and internationally. The industry needs to be forward-looking and innovative, delivering quality products and responding quickly in a dynamic marketplace. The success of the industry, and in turn its continued contribution to the Scottish economy, will ultimately depend on the competitiveness of its constituent sectors. Since our success hinges on continued competitiveness at a number of levels, we will develop a scorecard approach so that we can monitor competitiveness against international benchmarks.



Strategic Aims



our strategy

The partnership between the industry and the public sector is pivotal to achieving our vision. We have identified three inter-related strategic aims. Together they will maximise our competitiveness and enable us to achieve our vision. Industry and the public sector will take different roles in delivering these aims, but we will give each aim equal priority so that we can realise our vision.

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.

### **People & Infrastructure**

Strengthen the world-class workforce and improve the business infrastructure.

### **Profile**

Build the industry's profile within and beyond Scotland by influencing, marketing and communicating effectively

### **Innovation**

Exploit market opportunities through innovative products and services

World-class people and infrastructure



people & infrastructure



A strong financial services community needs the right people supported by the right infrastructure to enable its success. The business environment, workforce and local amenities determine whether an industry can be competitive on the global stage. Both the Scottish Executive and the industry are committed to improving these areas.

The public sector has the main responsibility for creating the right environment for business growth and workforce development. The Scottish Executive's *National Planning Framework for Scotland*<sup>7</sup> reinforces the role of planning in achieving economic growth and competitiveness, whilst its *Scotland's Transport Future*<sup>8</sup> commits to connecting people and places within and beyond Scotland to enable the development of our economy. Both aspirations are relevant to the financial services industry. The ongoing review and development of these initiatives provides an opportunity to influence the debate and shape Scotland's infrastructure, so that we can enhance Scotland's competitiveness as a global financial services centre.

<sup>7</sup> The National Planning Framework for Scotland, published in April 2004, sets out the Scottish Executive's strategy for Scotland's spatial development to 2005

<sup>8</sup> Scotland's Transport Future sets out the Scottish Executive's ambitions for improving the planning and delivery of transport at a local, regional and national level. It was published in June 2004.



People are the industry's most precious resource, and so the workforce infrastructure is crucial. We need to ensure that the industry can attract and retain skilled people with an ability to work locally and globally for their industry's success. Scotland must therefore be seen as a centre of excellence for skills development. The work of Scottish Enterprise with industry and partners has led the way with a range of industry-driven projects to:

- increase understanding of the industry and its career opportunities
- increase the appeal of the industry as a career option
- attract a wider range of people to work in financial services
- enhance the skill levels of new entrants
- develop the capabilities of people working in the industry

Scottish Enterprise and partners will continue to work with individual companies and the industry as a whole, to design and deliver initiatives which address the industry's skills and people requirements.

## **AMICUS**

**AMICUS is the Trade Union recognised by all 4 Scottish Clearing Banks. It also organises in a number of Scottish based Insurance Companies.**

**Located in its Scottish Regional Office in John Smith House, Glasgow, is a core of experienced and well trained staff, knowledgeable of the financial services industry and dedicated to serving its members. AMICUS aspires to work in partnership with employers and the Scottish Executive to ensure long term growth, success and prosperity of the Scottish financial services industry and those who work within it.**

## Early actions

Some of the actions we need to take to support our people and develop our infrastructure are:

- › publishing the database of education and labour market initiatives: sharing it with the industry's HR community to raise awareness and maximise the use of the capabilities it offers
- › presenting a collective industry voice to influence the National Transport Strategy, Strategic Projects Review and National Planning Framework review in order to develop a transport infrastructure which supports the needs of the financial services industry. Initial areas will include:
  - ›› working closely with the mobile telecoms operators to improve coverage on the main rail routes
  - ›› identifying key new direct air routes from Scotland
  - ›› considering a jointly-funded study to investigate the feasibility of making significant improvements to the Edinburgh – Glasgow rail link



## ESURE

**esure's Claims Academy takes in people from schools and colleges who enter an 'academy' structure which brings together intensive training and mentoring. It has gained 'prior learning accreditation' from the Chartered Institute of Insurance. 'Growing their own' helps esure staff become best of breed from the outset.**

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**esure also has a ground-breaking scheme which mentors high school pupils in IT, communication, finance and enterprise. Schemes like these give something back to the community and improve the culture of excellence in Scottish financial services.**

Global and local profile

A blue-tinted image featuring a hand holding a globe. The globe shows the continents of North and South America. The word "profile" is written in a white, serif font across the center of the globe.

profile



The process of developing this strategy has brought the industry and the public sector to a shared understanding of the potential for Scotland's financial services industry, and the issues and challenges it faces. This has created a joint commitment to taking the necessary action to maintain the industry's success in Scotland. We want to develop this understanding in greater depth, so that industry and the public sector can work together to make their collective voice heard to policymakers in Scotland and beyond on issues that impact on the industry in Scotland.

We need to promote the industry's strengths and successes on the domestic and global stages, so that Scotland develops the reputation it deserves as an international financial centre. As well as enhancing Scotland's international image, this will increase our competitiveness by:

- ▶ attracting talent to work in Scotland's financial services industry
- ▶ encouraging the financial services community to stay and grow in Scotland
- ▶ projecting a global capability that supports companies' international ventures
- ▶ reinforcing Scotland's credibility as a first choice base for headquarter and strategic operations
- ▶ attracting new investment into Scotland

The industry and the public sector share responsibility for delivering this strategic aim and are committed to continued dialogue and joint working.

### **Early actions**

Some of the early priorities to deliver this aim are:

- ▶ creating a Financial Services Advisory Board, to continue the strategic level public/private sector dialogue, monitor progress and deliver the strategy
- ▶ developing and delivering clear, consistent messages when promoting Scotland's financial services industry
- ▶ using a collective Scottish voice to inform the work of regulators and add value to the Scottish financial services industry
- ▶ working together on the Fresh Talent initiative to maximise benefit to the industry
- ▶ involving the industry in developing Scottish Development International's proposition and marketing strategy for financial services in Scotland to ensure that these remain compelling and dynamic

Innovation for Success

# innovation





New markets are emerging and existing markets are changing fast. Innovation is the key to sustaining and increasing market share, and ultimately maintaining a strong international industry based in Scotland. The industry must lead the delivery of this strategic aim, with companies working individually and/or collaboratively to:

- ▶ increase market share
- ▶ expand product and service ranges
- ▶ innovate in product and service development
- ▶ export their products and services to overseas markets
- ▶ exploit technology

## STATE STREET

State Street is committed to developing and applying leading-edge investment servicing solutions in order to enhance support for its multi-jurisdictional clients' investment strategies. As an example, State Street is currently introducing pension fund pooling capabilities in response to growing client demand. Virtual Pooling is a way to combine assets in a tax efficient manner within the same investment management mandate, while continuing to enable these assets to be legally, beneficially and directly owned by the pension fund participants in the asset pool. State Street's global client base is supported from its specialist Edinburgh investment servicing centre.



However, the public sector has an important role to make sure the environment supports innovation and enables forward-thinking companies to flourish. Non-devolved government exerts a powerful influence over the environment in which the industry operates, affecting issues such as regulation, competition, taxation, product design, pensions and the market for savings products. It is important that there is a shared understanding of the impact of these issues on the Scottish financial industry so that policy can be influenced accordingly.

Scottish Enterprise and Scottish Development International (SDI) can provide support to the industry and its supply network, for innovation and international engagement. This support will be mobilised to enhance the capabilities of supplier businesses and to enable firms to access practical support for innovation. Evidence suggests that engagement in the global marketplace significantly increases companies' productivity and enables Scotland to benefit from global investment and knowledge flows. Where appropriate, SDI will help companies in the industry and the supply network to identify and realise international opportunities, so they can sustain and develop their present capability in Scotland.

## Early actions

Some of the early actions we need to take to support innovation and the exploitation of market opportunities are:

- › identifying the strengths and weaknesses of the supply network and developing approaches to enhance capability
- › providing support for international engagement to companies in the industry and supply network
- › increasing financial services access to innovation support packages such as SMART, SPUR, KTP and R&D Plus<sup>9</sup>
- › creating a database of academic links and relevant research

<sup>9</sup> SMART and SPUR are grants for innovation available from the Scottish Executive. The Knowledge Transfer Partnership (KTP) scheme from the DTI can help a business to develop and grow by accessing the wealth of knowledge and expertise in the UK's universities, colleges and research institutions. R&D Plus is a support scheme available from Scottish Enterprise for large company research and development. Details of all of these and more support for innovation can be found by contacting Scottish Enterprise.



Next Steps



next steps



### **Measuring progress**

Having set out our vision for financial services in Scotland, we need to be able to measure our progress towards it and assess whether our actions are delivering the desired improvements in competitiveness.

The Scottish Executive already measures a number of indicators, such as financial services' contribution to the economy (output and employment), and will continue to do so. In addition, it will monitor and publish earnings and qualifications data as measures of employment quality.

Together we will develop other, more detailed industry-specific measures which give better insight into the industry and its constituent sectors.

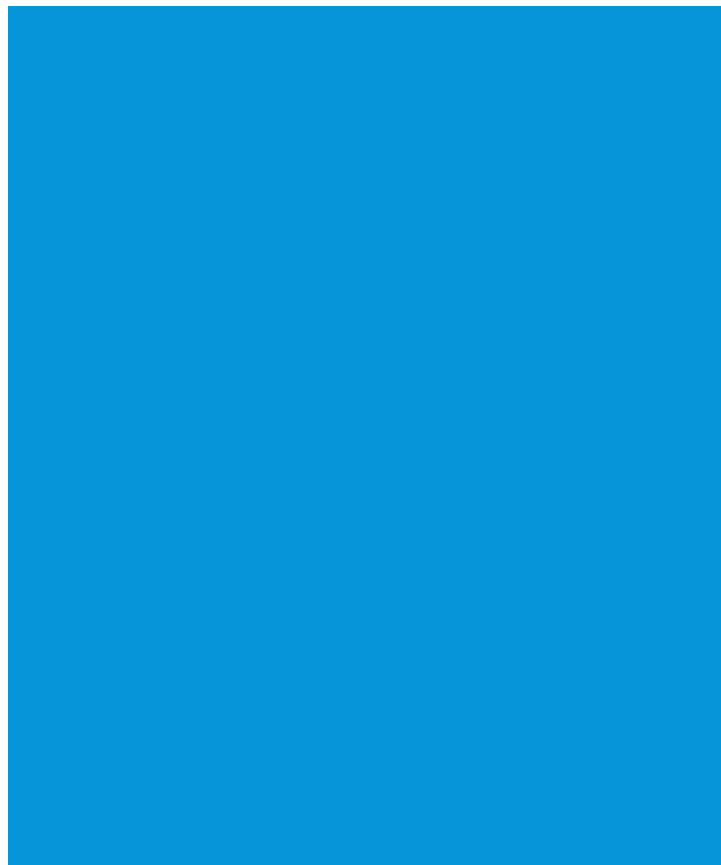
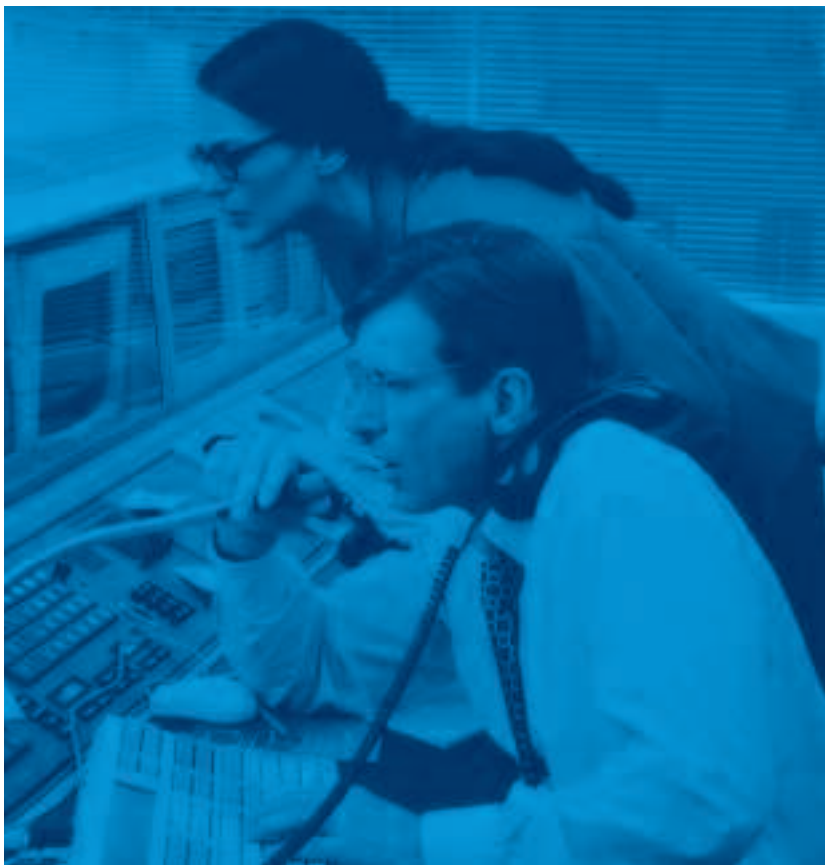
To help us understand our relative international position, Scottish Enterprise and the Scottish Executive will also benchmark Scotland as a location against international comparators.

## Delivery

We are committed to making our vision a reality. We have set out an ambitious strategy which we must deliver to secure the future competitiveness of Scotland's financial services industry. This will require continued collaboration between the industry and the public sector.

We have created a Financial Services Advisory Board (FiSAB) to lead the delivery and implementation of the strategy. Board members will be drawn from all parts of the industry, trade unions and the public sector and will include Scottish Financial Enterprise (SFE), the independent organisation that supports and represents the financial services industry in Scotland. Representation on the Board will be at the highest level with a Ministerial chair and an industry deputy chair.

All of the organisations and individuals involved in the FSSG believe that, by working together, we can achieve our vision more effectively. The creation of FiSAB is an opportunity to establish a different type of forum: one which complements but does not constrain the existing roles of partners. For example, the Scottish Executive and Scottish Enterprise will continue to engage with and support individual firms; SFE will continue to lobby on behalf of its members and provide a collective industry voice; and companies will continue to represent their individual concerns and interests.

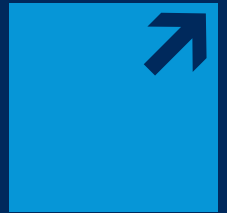




## NOBLE GROUP

From its well established base in Edinburgh, Noble Group has grown its investment banking business quickly over the past 5 years building its profile across the UK.

It is able to offer a high standard of service thanks to a large proportion of its personnel being drawn from the pool of high quality professionals available in Scotland. Scottish trained lawyers, accountants and graduates are both well qualified and innovative.



FiSAB's key roles will be to:

- ▶ ensure delivery and further development of the strategy
- ▶ continue strategic level collaboration and communication
- ▶ enable rapid response to changes in the operating environment
- ▶ act as guardian and champion for the strategy

A Financial Services Implementation Group (FiSIG), again with broad representation, will report to FiSAB and engage with the wider network of financial services firms. Where appropriate the group will draw in the supply network and other interested professions.

Together these two groups will direct and implement the specific actions needed to deliver the strategy. Each year they will publish an action plan, highlighting the priority, short-term and longer-term actions and taking into account market changes, progress to date and longer-term shifts in the global environment.

# Glossary

**ABI** – Annual Business Inquiry – Annual employer survey averaged over the year carried out by the Office for National Statistics

**ASHE** – Annual Survey of Hours and Earnings (Office for National Statistics), which replaced the New Earnings Survey in 2004.

**Call centre** – Centre where customer transactions are handled directly by telephone.

**Contact centre** – Centre where customer facing activity may be by a variety of means including internet, e-mail and telephone.

**Financial Services Employment Categories** defined by 1992 Standard Industrial Classification (SIC) codes

Banking – SIC codes 65.11, 65.12, 65.21, 65.22

Life Insurance & Pensions – SIC codes 66.01, 66.02

General Insurance – SIC codes 66.03

Asset Management & Securities Broking – SIC codes 65.23, 67.11, 67.12, 67.13

Intermediation – SIC code 67.20

**GDP** – Gross Domestic Product

**GVA** – Gross Value Added (GVA) measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom. It is used in the estimation of Gross Domestic Product (GDP) and is a key measure of the economic value generated by all sectors of the economy in a given time period (quarterly, annual, etc.).

## **How does GVA relate to GDP?**

GVA is a component of GDP, which is defined as GVA (at current basic prices; available by industry only) plus taxes on products (available at whole economy level only) less subsidies on products (available at whole economy level only).

i.e.  **$GVA + \text{taxes on products} - \text{subsidies on products} = GDP$**

In the case of financial services sector firms, their contribution to GVA in Scotland includes all the net income generated from the various financial activities they undertake from within Scotland (commissions, charges, net interest, etc.) as well as the income which accrues to their employees (wages & salaries) within Scotland.

**Intermediation** – The activities of insurance agents and brokers and IFAs (Independent Financial Advisers).

**LFS** – Labour Force Survey – A sample survey of the population seeking information on respondents' labour market status carried out by the Office for National Statistics and the Scottish Executive.

**Offshoring** – The process whereby business functions and activities are carried out in locations such as India which can offer lower labour and overall operational costs.

**Outsourcing** – The process whereby business functions and activities are contracted out to specialist suppliers who may be based locally or overseas.



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