



# Financial Services

Rocket fuel for post-Brexit growth

July 2019

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[home.kpmg/uk/en/uscorridor](https://home.kpmg/uk/en/uscorridor)



**When the UK voted to leave the EU, financial services firms took a deep breath – and then started planning. Three years on, the industry is primed to play a pivotal role in the new opportunities for growth ahead.**

As the heart of the global financial system, London faced what some viewed as an existential threat after Brexit, with the loss of passporting and the end of frictionless trade.

Clarity may still be in extremely short supply, but the City has long since taken matters into its own hands. The vast majority of banks, asset managers and insurance firms have opened new EU hubs to minimise disruption to their cross-border services, regardless of whether or not a transition period – or even No Deal – occurs.

Nor have we witnessed the mass exodus from the City some predicted. A handful of other EU-27 cities have inevitably taken on some of the activities traditionally associated with London, but no single dominant player has emerged to knock the City off its perch.



# London, the first port of call

With its unique sweet spot of language, law and longitude, the capital offers a deep, liquid and efficient capital and financial markets infrastructure. Around \$9 trillion of assets are currently managed out of London<sup>1</sup>.

The UK's robust and open regulatory framework provides contractual and legal certainty, making it an ideal offshore location to manage risk. Home to the world's third largest stock exchange and with a leading bankruptcy and insolvency regime, London boasts world-class professional services – and a burgeoning Fintech sector worth £6.6 billion a year<sup>2</sup> to the UK economy.

London will continue to be global number one for US dollar clearing, with clearing houses CLS Group and LCH both domiciled here. The memorandum of understanding agreed between the US Commodity Futures Trading Commission and the Financial Conduct Authority retaining dual regulatory oversight will be welcomed by US investors, ensuring that the critical set of rails between NY and London remain in place.

## UK-managed assets by UK regional headquarters (2008-2017)



Source: The Investment Association Annual Survey

<sup>1</sup> <https://www.theinvestmentassociation.org/assets/files/research/2018>

<sup>2</sup> <https://www.great.gov.uk/international/content/industries/financial-services/>

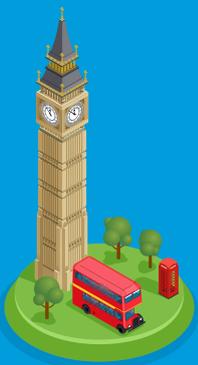
£6.6bn

value of  
FinTech to UK  
economy



76,500

people employed  
in FinTech



17

of top 50 FinTech  
companies based  
in London and  
**25%** of unicorns



# Operating within a shape-shifting landscape

Brexit is, of course, one of several challenges headlining on the international banking and business agenda. Geopolitical volatility is dampening business confidence on all sides, with many companies pulling in their horns in the face of protectionist policies and escalating trade wars, along with slowing growth in many major economies.

And then there a range of other priorities: the rapid rise of ESG issues, including sustainability and climate change, driven particularly by vocal investors; changing societal trends and customer behaviours; the impact of digital innovation; and the opening up of new trade corridors.

Brexit and intensified regulation have accelerated the balkanisation of capital throughout Europe. The big winners from that process will be the global networked businesses of scale, exactly as in other industries such as Tech and oil and gas.

Many major banks are in the process of reassessing what they do, where: upping their agility by remodelling themselves across a chain of global nodes in each key jurisdiction, mirroring the reconfigured supply chains of large corporate clients hunting down new markets.

<sup>6</sup> <https://invest.great.gov.uk/industries/health-and-life-sciences/pharmaceutical-manufacturing/>



# All systems go for growth

Firing up and rethinking the economy is right at the top of the UK's to-do list over the next five years – with particular focus on energy, sustainable industries, telecommunications, mobility and transportation, smart towns and cities and R&D.

Intra-trade corridors will be crucial to this, boosting the UK's regional hubs and creating powerful regional business ecosystems, underpinned by first class infrastructure nationwide. So too will be the new international trade corridors, sponsored by the Department for International Trade and the Foreign Office, stretching from Central and South America to the Far East.

Businesses need to lead from the front, drawing on their know-how to innovate, develop new products and services and commercialise quickly, while also driving a rapid improvement in productivity.

The Government, for its part, needs to create the necessary climate for growth. Its Industrial Strategy sets out to boost investment in innovation and infrastructure and to foster the skills required by the industries of tomorrow. With the loosening of ties with Brussels, we may also see the UK adapting its regulatory framework in support of the national agenda.

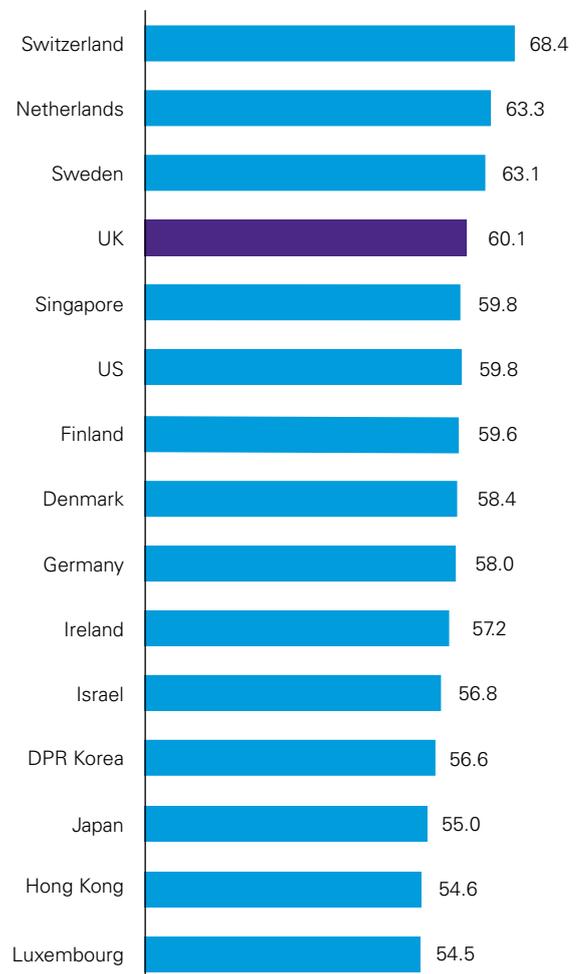
# Innovation – the UK's USP

The UK is the home of innovation - the first telephone and computer were invented here. The country is the top major world economy in the Global Innovation Index<sup>3</sup>, its robust IP system a magnet for global innovators and its world class universities providing an endless pipeline of ground-breaking new ideas.

A world-beater at cyber and security, the UK hosts industry-leading IP within the automotive sector, with Ford, Honda and Tata Jaguar all pursuing cutting-edge R&D. Developments in AI by businesses such as DeepMind are pushing back the boundaries in everything from climate change to healthcare.

And the work being done in 5G – for example by King's College, London in collaboration with BT – has enormous potential. The value will be in the orchestration layer, maximising the quantum leap forward in connectivity.

## Global innovation index report 2018



Source: [www.globalinnovationindex.org](http://www.globalinnovationindex.org)

<sup>3</sup> <https://www.globalinnovationindex.org/analysis-indicator>

# Financial services: the art of the possible

Financial Services should be right at the heart of this nascent growth. Making credit available to reinvigorate the economy is clearly central to that – but it's also about using the sector's unique convening power to turn the light bulb moments into commercial reality.

Investors and financial firms need to coalesce around the innovators and think 'what can we do to help?' That means bringing the right stakeholders to the table – from the private and public sectors and the regulators – and being alive to the issues driving different boardroom agendas, such as sustainability, and where the new global markets lie.



# KPMG – the bridge for clients in the US and the UK

KPMG is the only one of the Big 4 accounting firms to have a permanent UK-operated presence in the United States and similar US-operated presence in the UK. We recently opened a subsidiary of the UK business in New York; KPMG UK (Transatlantic) LLC, to support US companies with a presence in the UK – or those looking to establish one there.

Staffed entirely by UK principals and professionals working in partnership with US client service teams and specialists back in the UK, we provide on-the-ground support so that US companies can navigate the UK business environment and its unique growth opportunities.

Our expertise helps businesses hit the ground running, with everything from legal and tax advice, to business remodelling, accessing finance, digital strategies, and growth and right-sizing plans.

We were also the first Big Four firm to appoint a Head of Brexit in the UK and have been advising clients on the frontline ever since. From supply chain issues, to customs, working capital, contracts and people, we've spent the past three years helping our clients to de-risk and identify where the new openings lie.



# How KPMG can help

Find out more about how KPMG can help steer you through the opportunities by contacting....



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