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How Scotland's financial services industry can seek to drive long-term growth

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**Minds made for building
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Introduction

The unique nature of Scotland's financial services community

Sue Dawe
Head of Financial Services, Scotland, Ernst & Young LLP

Scotland's international success as a financial services centre is rooted in over 350 years of world-leading expertise. It has been maintained through a tireless commitment to innovation, investing in the development of talented people, and resilience and adaptability in the face of change. In light of the COVID-19 pandemic, this is more important than ever.

The industry in Scotland has a unique and powerful blend of attributes. These are neatly knitted together to create an ecosystem of financial services that is internationally renowned for being much more than the sum of its parts. This report analyses the nature of the financial services industry in Scotland, both quantitatively and qualitatively, to reveal the key aspects responsible for driving its growth and success. It also identifies some of the industry's current challenges and potential threats to Scotland as a world-leading financial services centre, with recommendations to mitigate against these.

Our research includes the views of a selection of 21 leading industry executives in Scotland, gathered via one-to-one interviews between August and October 2019. These interviews took place prior to the COVID-19 pandemic and the resulting lockdown and, whilst these events have clearly had an impact on the sector in Scotland, as elsewhere, the key messages remain as valid today as they did then. The areas considered in this report include: workforce talent and skills; future ambitions to grow and invest in Scotland; and considerations relating to the political landscape.

When overlaid with key socio-economic and industry data, the analysis brings fresh understanding to the mix of characteristics that define Scotland's financial services industry. These characteristics can be broadly grouped into three areas: quality, skills and value. Each has demonstrable positive features for both the employer and the individuals who work in Scotland.

1. Quality

In the field of financial services, Scotland offers quality in two important senses. First, it is a world-renowned financial centre. The Global Financial Centres Index places Edinburgh in 13th position worldwide in terms of competitiveness, ahead of other European hubs including Frankfurt, Paris, Amsterdam, Stockholm, Brussels and Dublin.¹

The attractiveness of Scotland is clear. At the time of interview, the majority of respondents (67%) planned to establish new operations in Scotland or expand existing ones, mostly within the next few years.

From a financial technology (FinTech) perspective, at the start of 2020 the sector gained formal accreditation as the UK's first FinTech cluster of excellence (see 'FinTech growth', page 09).

Secondly, Scotland has also been shown to offer a greater quality of life compared with many other financial centres. In terms of measured life satisfaction ratings, it has scored higher than the UK average in every year measured since 2011.² In addition to this, Scotland was predicted to achieve the highest life satisfaction score across the main financial centres in Europe by 2021.³ Remote working has become the 'normal' for many industries during the COVID-19 pandemic and it remains to be seen what impact this will have on ways of working in the future. In addition, a key consideration for where and how people work is likely to be quality of life.

2. Skills

Our research shows that access to a skilled workforce is the single most important factor for financial services firms when deciding to locate or invest in Scotland, with 81% of all respondents stating this as a reason for doing so.

In the five years prior to 2019, there was an increase in job creation, with 86% of respondents having grown their headcount during that period. Respondents in the survey also stated they were actively recruiting for new roles at the end of 2019, mostly sourcing talent (graduates as well as 'experienced hires') from within Scotland and other areas of the UK.

The skills available in Scotland have also evolved with both current demand as well as expected future needs. In our survey, 62% of respondents noted increased recruitment during 2019 in more highly skilled roles in the fields of technology, digital and data science.

3. Value

Value is another key area of consideration for firms, with 38% of respondents listing low set-up and operating costs as a significant factor that attracted them to Scotland. Our research shows that, in comparison to other major European financial centres, operational costs for firms are relatively low in Scotland, especially given the breadth and depth of workforce skills in (2) above. The fact that the UK has the second-lowest corporate tax rate in Europe helps to underpin this. Additionally, out of the leading European financial centres, Edinburgh and Glasgow offer the lowest cost for commercial rent per square metre.

The individual benefits from working in one of the best-paid sectors in Scotland, as well as enjoying a lower cost of living and greater purchasing power in comparison with other European hubs, including London, Amsterdam, Dublin, Frankfurt and Paris.⁴

As one respondent in the survey put it: "There is a large talent pool from universities and Scotland is a large financial centre. There is no real reason for so much to be done in London, given the relative cost difference."

Maintaining success

There is great cause to celebrate the strengths of the financial sector in Scotland. It is important, however, not to be complacent as the economy continues to deal with the impact of the COVID-19 pandemic. The challenge posed by the pandemic, and its impact on the economy and society, is significant, and only serves to underline the importance of the role the financial services sector has to play in supporting the recovery. It will be best placed to do so if we can address and ensure the following:

- Skills availability
- Investment in, and adoption of, digital technologies
- Industry promotion: showcasing the industry's positive impact on individuals and wider society



Creative and collaborative solutions are particularly important in an environment of constant change – whether political, social, regulatory or technological.

Sue Dawe, Head of Financial Services, Scotland, Ernst & Young LLP

Scotland benefits from a highly integrated financial services ecosystem and a shared industry agenda of increased, cross-sector collaboration, led by the trade body Scottish Financial Enterprise (SFE). This ability to effectively collaborate with key industry stakeholders, the UK and Scottish Governments and their agencies, as well as academia, will be critical in ensuring a robust recovery for financial services in Scotland. We note that the Scottish Government, for example, has announced fresh investment in skills and digital transformation initiatives in order to help meet the challenges posed by the COVID-19 pandemic.

In an uncertain economic and business environment, nothing can be taken for granted, and there must be a relentless focus on innovation and growth. Creative and collaborative solutions are particularly important in an environment of constant change – whether political, social, regulatory or technological.

As part of our research into Scotland's financial services sector:

- We conducted face-to-face interviews with 21 senior representatives of financial services companies in Scotland between August and October 2019. The quantitative and qualitative output of these interviews have been included in this report. A number of the quantitative questions allowed for multiple responses to be given, explaining why, for a number of questions, the total response is greater than the overall sample size. We thank all the research participants for sharing their valuable insights and opinions.
- Detailed data analysis and research into Scotland's financial services sector was carried out by EY-Parthenon Financial Services in December 2019.



Foreword

Philip Grant
Chairman, Scottish Financial Enterprise

Scotland's financial services sector recognises the vital economic role and societal responsibilities it has to customers, colleagues and our communities. Delivering on this has never been more important as we all navigate the COVID-19 pandemic and the resulting need for economic and social recovery.

From facilitating the government-backed COVID-19 pandemic support for businesses, helping individuals with the financial space they need to manage the uncertainty of the time, providing mortgages that allow people to buy their own home, and managing the funds that invest in the economy and help people save for retirement, to protecting and insuring what is important to them, a strong financial services sector is critical to Scotland's economic and societal wellbeing.

As the industry's representative body, Scottish Financial Enterprise (SFE) has a central role in the development of the value of the sector through collaboration across our membership. Our community's willingness to work together and participate in Scotland's Financial Services Strategy has seen the establishment of FinTech Scotland, successful initiatives in schools and colleges, and stronger relationships with government and the regulator.

Over the past seven months, we have been in constant dialogue with both the UK and Scottish Governments in a range of forums to offer our collective insight and challenge where necessary. The SFE Board provided recommendations to the Advisory Group on Economic Recovery, led by Benny Higgins, and I joined the Enterprise & Skills Strategic Board sub-group, led by Nora Senior, to consider what measures are necessary to mitigate the labour market impacts from the COVID-19 pandemic. These are just two examples of business and government constructively engaging with the common goal of finding solutions to evolving economic and societal challenges.

Looking ahead, our members tell us that skills development, promoting the industry, capitalising on new opportunities (especially in FinTech) and navigating the geopolitical uncertainty remain key enabling priorities in supporting the economic recovery.

Whilst the pandemic has adjusted the weighting of some of these priorities, the themes highlighted in this report by EY Scotland are consistent with the sentiment of our members, which range from global financial businesses headquartered in Scotland to small start-ups and professional services firms.

Our sector, and indeed many others, will be forced to make difficult decisions in the months ahead as new challenges emerge from the ongoing health crisis. However, I believe there will be opportunities for our sector to support customers, colleagues and communities in innovative ways.

Scotland's thriving FinTech ecosystem is one of the strongest in Europe and the number of FinTech small and medium-sized enterprises (SMEs) has doubled since last summer. Innovation, inclusion and collaboration are the key drivers behind our FinTech cluster and it's promising to see numerous examples of Scottish FinTechs accelerating the application of their innovative propositions to provide immediate support to citizens and businesses, whilst helping build a more digitally-engaged society that will shape our future.

Interestingly, a straw poll of SFE members at a webcast in August found that 100% of respondents agree there is a compelling and

innovative future ahead in financial services as a direct result of the pandemic. The same poll also found that 87% think financial services organisations should continue to operate remotely post pandemic. Whilst much of our industry continues to work remotely, it's realistic to imagine a blended model of home and office working.

As well as digital innovation, providing a platform for the next generation to enter the industry and upskilling existing colleagues so we are ready for the challenges of the future must remain high on the agenda. This is why SFE has pivoted initiatives such as our Unified Schools Programme to an online offering to encourage and inspire school pupils to consider and explore the career opportunities available in financial services.

The changing political and regulatory environment both here and overseas continues to be front of mind for the wider business community. Our members are confident and ambitious that Scotland's financial services ecosystem has the necessary fundamentals to remain a leading financial centre.

SFE will always act in the best interests of our members and represent the collective industry view. We will continue to work constructively with both Governments, their agencies and key partners to ensure the success of our industry and, more importantly, wider society. As Chair of SFE, I firmly believe collaboration across our industry can make a positive difference to people's lives and the communities in which we live – now and in the future. This demands our absolute focus, now more than ever.

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Philip Grant, Chairman, SFE

Quality

Quality of the sector and quality of life for the individual are at the very core of Scotland's continued success as an international financial services centre.

The significant and consistent economic contribution made by the industry encourages further growth and investment across various sectors and regions. This can only be sustained with a talented and motivated workforce – ensuring their happiness and life satisfaction are the key aspects of the quality that Scotland offers.

Strong economic performance

Scotland's financial sector is a crucial part of the Scottish economy, both in monetary and employment terms.⁵ In 2019, financial services made the largest contribution by sector to the Scottish economy.⁶

Over recent years, Scotland has outperformed the rest of the UK when it comes to growth in financial services:

- Between 2014 and 2018, the sector in Scotland expanded at 1.3% compound annual growth rate (CAGR). This growth was greater than the UK average of -0.3% and London at 0.2%.
- More recently, between 2017 and 2018, Scotland's Gross Value Added (GVA) grew by 2%. Again, this is significantly faster than the UK average, which decreased by -0.2% over the same period, and London, which also saw a decrease of -0.8% in GVA.⁷
- In 2019, the Scottish financial services sector exceeded the pace of growth experienced by the sector across the UK by 7.5 percentage points (with 4.5% GVA in Scotland and -3% GVA in the UK).⁸

As with every other industry, financial services businesses in Scotland are dealing with the impact of the COVID-19 pandemic. As outlined by Philip Grant, Chairman of SFE, in his contribution to this report, the sector has played and will continue to play a critical part in getting the economy back on its feet. A straw poll of more than 80 representatives from financial services businesses carried out by SFE at a recent webcast discussing workplace transformation and the acceleration of technology found that 100% of those surveyed

agreed that, "there is a compelling and innovative future ahead in financial services as a direct result of the COVID-19 pandemic."⁹

Attractive environment for growth and investment

Two-thirds of the organisations (67%) interviewed by EY in 2019 were planning either to establish new operations or to expand their existing operations in Scotland. Just over half of them planned to do this within two years. The organisations surveyed revealed the most common areas of growth (in relation to headcount) were technology and digital (67%) and risk (29%).

The most common factor driving investment in financial services operations in Scotland (cited by 29% of respondents) is a desire to move from other locations in the UK such as London and the South East, demonstrating Scotland's relative attractiveness within the UK. Expanding an existing Scottish presence is the second most common factor for this growth (24% of respondents).

The period between January 2017 and July 2019 saw the announcement of 17 projects, with £290m in direct investment and 3,224 jobs coming into Scotland from organisations based in other areas of the UK.¹⁰

Scotland also outperforms in terms of foreign direct investment (FDI). During 2019, Scotland increased FDI in financial services by 1.8% whilst in the same period across Europe, FDI in this sector fell by just under 13%. The eight financial services FDI projects secured in Scotland last year created an estimated total of 2,911 jobs – more than three times the equivalent number in London (estimated to be 806) and more than half the UK total (estimated to be 4,443). In terms of the number of financial services FDI projects in the UK during 2019, Scotland came second only to London, with its share increasing from 6.3% in 2018 to 8.1% in 2019.¹¹ And across the UK, Scotland was the most

attractive location, after London, for financial services FDI in 2019 for the seventh consecutive year.

Regional growth: Glasgow increasingly attractive, but Edinburgh remains in pole position

Within Scotland, the investment seems to be geographically concentrated. According to our survey, Edinburgh and Glasgow are still dominating; 86% of organisations are most likely to invest in Edinburgh, compared with 48% in Glasgow. Ten percent said they would be likely to invest in both Aberdeen and Dundee, and another 5% in Stirling and Kilmarnock.

In terms of FDI at a city by city level, Glasgow was the second most attractive city in the UK for financial services FDI in 2019, having secured more than three times the number of projects as Edinburgh.¹²

In the summer of 2020, plans were unveiled for a new bank for Scotland. Glasgow-based Alba Bank aims to provide a service to SMEs and backers hope to launch it in the first quarter of 2021.¹³

Meanwhile, Barclays is building a facility on Glasgow's riverside, the Barclays Glasgow Campus, to accommodate expanded technology, operations, and functions teams such as risk and procurement. The project is due for completion in 2021 and is expected to double Barclays' Scottish workforce from 2,500 to 5,000, with 42% of the new jobs defined as 'high value'.¹⁴

JP Morgan also plans to build a new base for its Glasgow Technology Centre in the city's International Financial Services District (IFSD), which will initially house 2,000 technology specialists and open its doors in 2022. The facility, announced in September 2019, provides for further growth potential, with JP Morgan saying the hub gives the firm "capacity to further grow in the city, with space for up to 2,700 employees."¹⁵

Despite the COVID-19 pandemic, developers' confidence in Glasgow as a financial centre appears to be holding up, with Soller Group confirming plans for a 200,000 sq. ft. office development in the International Financial Services District.¹⁶

Whilst Edinburgh and Glasgow remain the primary locations for growth, activity is also increasing in other cities. In October 2019, Embark Group acquired two client books of Dundee-based Alliance Trust Savings, stating that it hoped the move may lead other financial sector firms to grow in the city and take advantage of Dundee's untapped talent pool.

At the same time, Edinburgh-based FNZ, a technology provider for the wealth management sector, announced plans to open a permanent strategic operations centre in Dundee.¹⁷ FNZ was founded in New Zealand before moving its HQ to Edinburgh.¹⁸ In a recent investment round in 2018, the company was valued at £1.65b.¹⁹

In addition to its Glasgow campus, in 2019 Barclays also announced an expansion of its Aberdeen presence, moving to a new facility with 34 additional jobs to be created.²⁰

There is of course an important caveat, since it remains to be seen what demand for city centre office space will look like after the COVID-19 pandemic. Working patterns for the financial services workforce over the next few years could look quite different from those before the pandemic.

FinTech growth

Our research indicates that Scotland's financial services growth story is based on successes achieved by a diverse range of organisations. These include both long-standing incumbents and new challengers, particularly in the field of FinTech.

In the 20 months prior to September 2019, investments into FinTech companies in Scotland topped £100m.²¹ The Centre for Financial

Case study



Stephen Ingledew
Executive Chair,
FinTech Scotland

FinTech Scotland

This 'strategic enabler' to Scotland's growing community of 150-plus FinTech SMEs (as of September 2020) supports innovative enterprises in a variety of ways such as; collaboration with large financial institutions; engaging with the regulators; leveraging university skills and capabilities; building their profile; connecting them with investors; developing access to global markets; providing access to business support initiatives (such as incubators and accelerators); and helping them become more innovative.

Stephen Ingledew, Executive Chair, FinTech Scotland, comments: "We have led the

development of a fast-growing, innovative FinTech SME community made up of home-grown enterprises and international FinTechs that have established a presence in Scotland.

"This has enabled us to establish a globally recognised and collaborative FinTech cluster which brings together entrepreneurs, large financial services firms, global technology and professional services firms, universities, regulators, investors, government agencies and, very importantly, consumer groups, all focused on developing financial innovation initiatives through active participation and inclusion."

Regulation and Innovation has estimated that this sector will create 15,000 jobs in Scotland over the next 10 years.²²

In January 2020, Scotland was formally recognised as the UK's first FinTech cluster of excellence, and the third in Europe, by the European Secretariat for Cluster Analysis (ESCA).²³

The FinTech sub-sector comprises a mix of home-grown start-ups and existing firms moving to Scotland. The former include businesses such as DirectID (an open banking solutions provider), FreeAgent (a cloud-based accounting software provider, now part of NatWest Group), LendingCrowd (a payment-to-payment [P2P] lender) and iZettle (an SME payments services provider). Amongst the 10 international FinTechs to set up a base in Scotland in the last two years are Gobbill (Australia), Polydigi (Hong Kong), EdenBull (Norway) and QWallets (US).²⁴

FinTech enterprises such as personal finance platform Money Dashboard,²⁵ and Modulr,²⁶ a digital payments provider to SMEs, have successfully raised funding for growth through avenues such as crowdfunding and targeted grants. Meanwhile, online 'wrap' business Nucleus went to IPO on the Alternative Investment Market (AIM) with a valuation of £140m.²⁷

Scotland's academic institutions are also supporting FinTech growth. One example is the Edinburgh-based Global Open Finance Centre of Excellence, an initiative led by the University of Edinburgh, FinTech Scotland, the Financial Data and Technology Association (FDATA) and Scottish Enterprise, which in June 2020 received a £22.5m grant from UK Research and Innovation.²⁸

The Financial Conduct Authority (FCA)

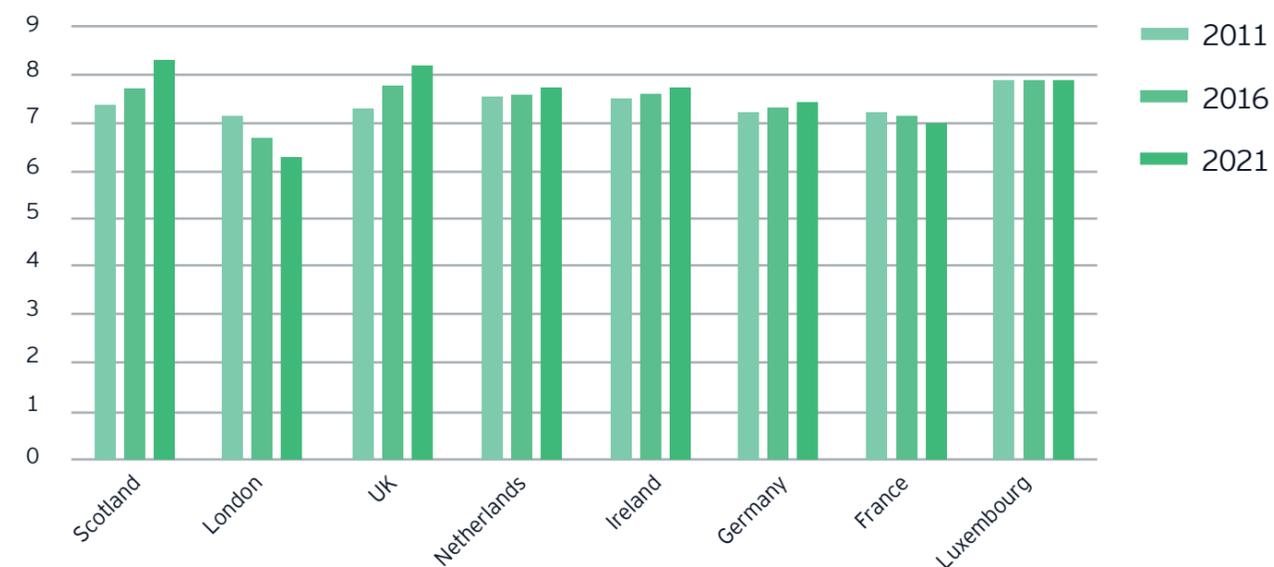
In recognition of the growth of financial services in Scotland – with the increasingly diverse nature of the industry and the availability of a highly skilled workforce – the regulator, the FCA, is building out its commitment to Scotland. (See panel, below.)

Life satisfaction

One-third (33%) of the organisations in our survey named the standard and quality of life for employees as a reason that Scotland has remained an attractive place to operate. When looking at all results and rankings, this factor placed third overall, after access to a skilled workforce at 81% and low set-up costs at 38%.

Life satisfaction in Scotland, as measured by residents' self-assessment, is on an upward trajectory and is moving at a greater pace than any other European financial centre. Scotland is predicted to achieve the highest rating out of the European countries with major financial centres by 2021, whilst other UK-based financial services hubs are expected to have lower ratings. Indeed, forecasts suggest a 30% disparity between Scotland and London.²⁹

Life satisfaction ('11, '16, '21)



Historic: Eurostat Overall Life Satisfaction Survey 2011, 2016. Forecast: EY-Parthenon Analysis

Case study



Maggie Craig
Head of Scotland Office,
FCA

The Financial Conduct Authority (FCA)

In 2018, the FCA announced plans for a significant expansion in Scotland in light of the growing importance of Scotland's financial services sector. This expanded presence enables the FCA to learn more about the consumer base in Scotland, tap into the country's rich talent pool and gain a better understanding of the wider Scottish context.

During the last three years, the FCA's headcount in Scotland has increased from 86 in 2017 to 120 (as of September 2020). Three new 'Head of Department' roles have been created in the same period, including a dedicated Head of Scotland post, along with an additional five manager roles. Due to the COVID-19 pandemic, the FCA has had to slow down plans for its office building, but it has doubled the size of its space and plans to complete a full refurbishment as soon as it is possible to do so.

Maggie Craig, Head of Scotland Office at the FCA, says: "The financial services industry is very important in Scotland. Scotland is the second biggest financial centre in the UK outside London and is growing, and is continuing to attract large firms and highly skilled individuals. As a result, there is a large and diverse talent pool here.

"The size of Scotland as a nation is important; we are small enough to know each other and be well connected, but big enough to have credibility and critical mass.

"The expansion of the Scotland office is an indication of how seriously the FCA takes its commitment to Scotland. The COVID-19 pandemic has obviously impacted our refurbishment plans, but we remain strongly committed to strengthening our presence in Scotland."



Skills

The momentum in financial services seen in recent years owes a lot to Scotland's ability to provide a consistent supply of talent to the industry. For 81% of the companies surveyed, this was the most popular reason given as to why Scotland was an attractive destination to establish operations or invest in.

Further to this, a number of respondents commented on low staff attrition rates. One, for example, referenced average tenure in Glasgow to be up to four times that of London. Respondents also said that the attributes of a good work ethic and resilience of employees in Scotland are attractive to employers.

Almost all the companies surveyed that had grown in the five years up to the end of 2019 relied on external talent hires from within Scotland (89%) and from other parts of the UK (67%). Our research also shows Scotland's ability to provide companies with talent from a variety of educational and professional origins – the top two sources of talent are experienced hires from the financial services industry (83%), and graduates (72%). Fifty percent of organisations recruited experienced hires from other industries (outside of financial services) and 39% recruited school-leavers.

The talent challenge facing Scotland as a whole, however, is acute and distinct relative to the rest of the UK. The *EY Scottish ITEM Club 2020 Forecast* reveals the working age population is declining, both through natural change and lower migration. This position is intensified by the forecast that Scotland's total population may well peak earlier than previously anticipated, in 2021.³⁰

Given this demographic challenge, reliance on existing talent is not sustainable if further growth is to be achieved, and the ability to attract people to work in the industry from outside Scotland will be just as important as finding ways to strengthen

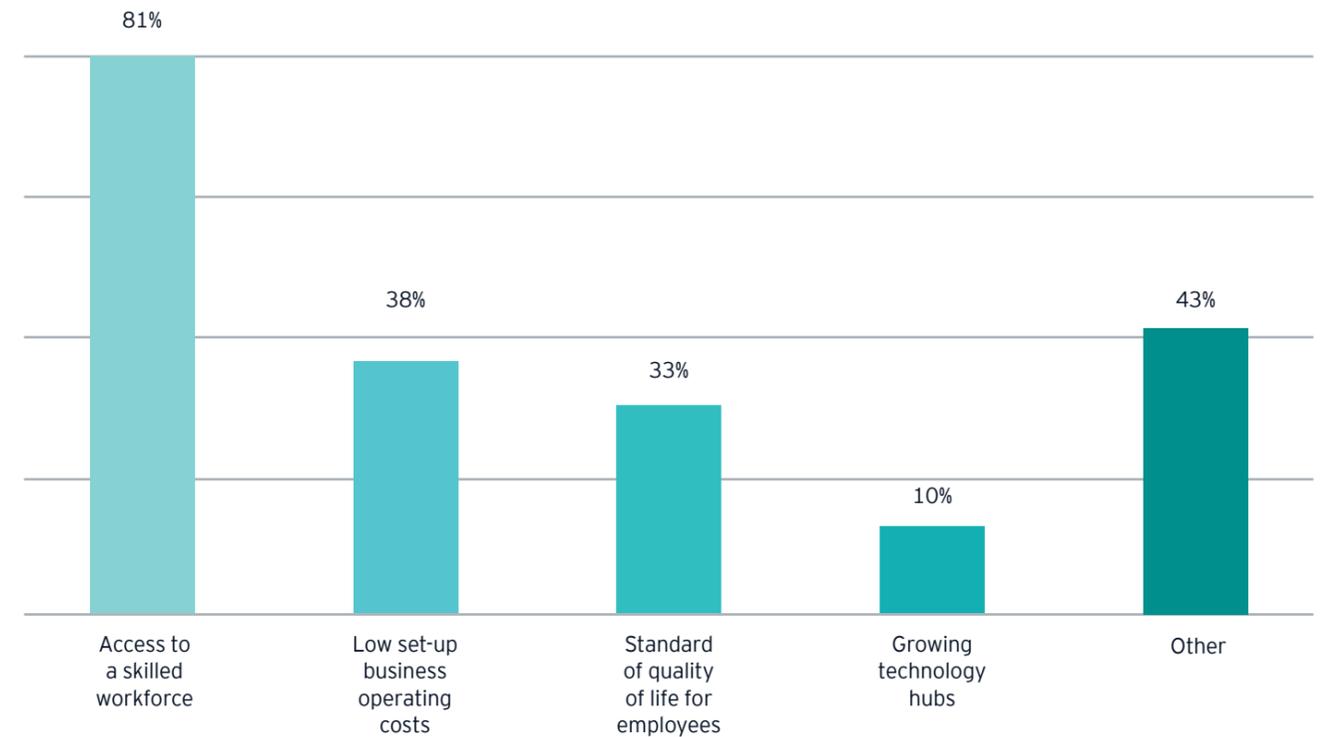
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The skills and knowledge of the workforce are a key reason why Scotland has remained attractive.

Survey participant

Reasons financial services companies operate in Scotland

Percentage of organisations



Source: EY survey

the domestic talent pipeline. Initiatives run by the SFE's Skills and Talent Group, to create new pathways into the industry for school-leavers, unemployed and underemployed people, are helping to build the talent pipeline, but it will also be necessary to adopt new technologies and new strategies to improve efficiency and productivity.

Large pool of graduates

Scotland has 19 universities – the highest concentration in Europe – with nine of these offering more than 50 specialised banking, finance and risk management courses. Scotland is also home to five universities in the global top 200, the second-highest concentration per capita in the world after Switzerland.³¹ Universities play a key role in the growing focus on technology and digital skills mentioned in our research, such as Strathclyde University, which launched Scotland's first FinTech degree course in 2017, followed by Stirling University in 2018.

The University of Edinburgh's School of Informatics also holds a world-leading position in the field of artificial intelligence (AI). Of the six research institutes within the school, four focus on AI topics, thus making Edinburgh the leading university centre for AI in the UK.³²

The financial services sector is attracting new talent from Scotland's universities, which are producing high-calibre, in-demand individuals. These include finance graduates (the more traditional talent pool for financial services companies) as well

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Staff turnover here is low, [it] would be higher in London.

Survey participant

as technical and digital graduates – such as those with science, technology, engineering and mathematics (STEM) skills, a rapidly growing source of talent for financial services companies – and business school graduates. In total, those with master’s degrees, doctorates and people holding a certificate of higher education or diploma of higher education (offered by both universities and colleges) made up 66% of the financial services workforce in Scotland in 2018, up by 7% from 2014.³³ This illustrates the important role of Scotland’s universities and colleges in the talent pipeline into financial services. Schools are also an important source of talent for the sector, with 39% of firms we surveyed increasing headcount through hiring school-leavers. This was the fourth most popular source of talent for respondents after experienced hires from the industry (83%), graduates (72%) and experienced hires from other industries (50%).

Job creation

Despite ever-increasing automation and digitalisation, the financial services workforce in Scotland has seen an increase in recent years. The total number of financial services employees grew by 0.4% CAGR between 2014 and 2018.³⁴ In 2018, the financial services sector directly employed around 88,000 people in banks, asset managers, insurers and other financial services companies (not including related professional services such as accountancy, management consultancy and legal services). And, whilst Scotland is currently home to only 8% (5.5m) of the UK’s population,³⁵ it accounts for a larger share of those working in banking, insurance and long-term savings:

- ▶ 10% (40,400) of banking sector employees
- ▶ 9% (25,800) of insurance and long-term savings employees
- ▶ 7% (4,700) of asset management employees
- ▶ 7% (16,700) of employees in financial services activities other than those conducted by monetary institutions³⁶

Our research carried out during 2019 supports these growth stories, with 86% of companies surveyed having grown their headcount in Scotland in the five years prior to our analysis. The remaining 14% had either maintained or reduced headcount. Of the organisations that had grown their headcount, two-thirds said that this related to technology or digital roles.

Although the long-term impact of the COVID-19 pandemic is still hard to assess, whilst the intention to create more opportunities in financial services is clear, the nature of those roles is likely to be different from what has gone before.

Spotlight on diversity and inclusion

Another vital element of the skills strategy for Scotland’s financial services industry is diversity and inclusion (D&I). In recent years, many have acted to support greater D&I policies within their firms and the wider industry.

The majority of respondents have some form of D&I programmes and initiatives in place, though many acknowledged the industry needs to do more. With particular reference to recruitment, we found that around one-third of organisations interviewed were deploying formal targets and quotas to drive progress on recruitment diversity. Additionally, some firms stated that they refuse to invest in companies with no women on their board.

Our interviews took place prior to the worldwide raising of awareness around the Black Lives Matter (BLM) movement in 2020. Given the industry’s response, and the ongoing focus on increasing diversity in financial services, we believe the number of firms with formal quotas or targets in place would have increased since we conducted our original research.

Social inclusion is also an important element in D&I. In Scotland, the Young Person Guarantee initiative aims to ensure that everyone aged between 16 and 24 will be guaranteed “an opportunity at university or college, an apprenticeship programme, employment including work experience, or participating in a formal volunteering programme.”³⁷ This opens up the possibility of creating new routes for those from disadvantaged backgrounds into a career in financial services.

There is also the Digital Start Fund, launched in Scotland in 2019, which aims to help people from diverse backgrounds boost their digital skills and embark on a new career, for example in financial services.

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The depth of financial services talent is attractive to employers and the quality of life is attractive to employees.

Survey participant

Value

One of the most attractive factors for financial services companies in Scotland is the combination of low costs with high value in terms of workforce skills. In our survey, 38% of the organisations cited low set-up and business operating costs as a factor in Scotland’s favour.

Indeed, a 30-40% cost saving on operations can be achieved in Scotland compared with London.³⁸ Scottish-based companies also pay UK corporation tax, which is attractive compared with many

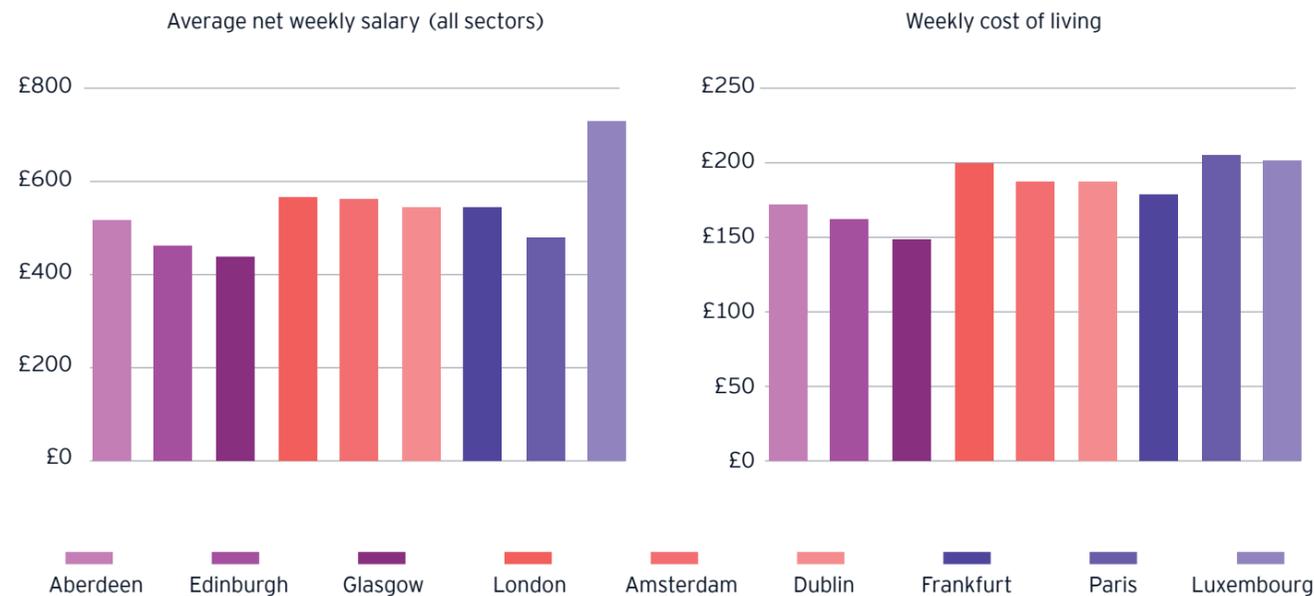
financial centres outside the UK. The corporation tax rate is 19% at the time of writing, which is the lowest business tax rate of any G7 country – and one of the lowest in the G20.³⁹

Cost of doing business



Source: Statista

Demographic indicators



Source: Numbeo

From the perspective of the individual, Scotland is also a financially attractive place to live. Financial services employees in Scotland are well paid in comparison with other sectors,⁴⁰ and Scotland as a whole has a lower cost of living and greater purchasing power in comparison with other European financial hubs. The expected consumer purchasing index (CPI) relative to London will see that employees in Scotland benefit from cheaper consumer prices combined with favourable levels of disposable income.⁴¹



Scotland is also a financially attractive place to live. Financial services employees in Scotland are well paid in comparison with other sectors.

Government and business working together

A key aspect of Scotland's financial services industry is the power and efficiency of its interconnectivity within the sector, and with the Scottish Government, to drive positive outcomes.

For example, the Scottish Government is directly contributing to the continuing growth story of the financial services sector across a range of areas, including approving the creation of a Scottish National Investment Bank.

The bank is due to launch by the end of 2020, providing finance for SMEs and 'mission-led' investment, such as transitioning to a carbon-neutral economy, regeneration, and responding to demographic change. The bank, armed with a £2b commitment from the Scottish Government to invest over 10 years, will work closely with private sector financiers, and is expected to employ between 100 and 150 people.⁴²

The talent pipeline is also being enhanced by the Scottish Government's support. In 2019, the £1m Digital Start Fund was launched to help more people – particularly women returning to work and those from disadvantaged backgrounds – access the training they need to improve their digital skills and embark on a new career.⁴³ Over £3.5m has also been invested in the Digital Growth Fund and Digital Boost programmes, which are helping Scottish businesses to invest in new technologies, such as cyber security, data analytics and software engineering and are providing improved staff training and skills.⁴⁴ In August 2020, the Scottish Government announced a further £1.5m for the Digital Boost programme.⁴⁵

The Scottish Government aims to help businesses prepare for a more technology-focussed and digital future – and recover from the impact of the COVID-19 pandemic – by placing emphasis on research and development (R&D), and innovation. The

Government's programme for Scotland 2020-2021, titled *Protecting Scotland, Renewing Scotland*, building on the work of the Advisory Group on Economic Recovery, has outlined a range of initiatives that are highly relevant to the financial services sector of the future. These include:

- An ambitious five-year digital transformation programme set to be launched in early 2021, following the publication of a Digital Strategy for Planning in late 2020
- A commitment to increase Scotland's annual infrastructure investment until it is £1.5b higher by the end of the next Parliament than it was in 2019-2020
- Increasing annual spend on inward investment support to £20m a year, to deliver 100,000 high-value jobs in Scotland over the next decade
- Assessing the scope for a proposed new Centre for Workplace Transformation to help businesses adapt to flexible ways of working
- Establishing a national network of world-class start-up incubators ('Tech Scalars') and a part-public, part-privately funded Ecosystem Fund that will make strategic tech investments
- A commitment to launch the Scottish National Investment Bank in 2020, as planned
- A £25m National Transition Training Fund to provide rapid, targeted support to people facing redundancy and unemployment
- Providing £10m funding for up to 8,500 individuals to complete or start an apprenticeship
- A new £60m Young Person Guarantee Fund to help 16-24-year-olds transition into work, education and training⁴⁶

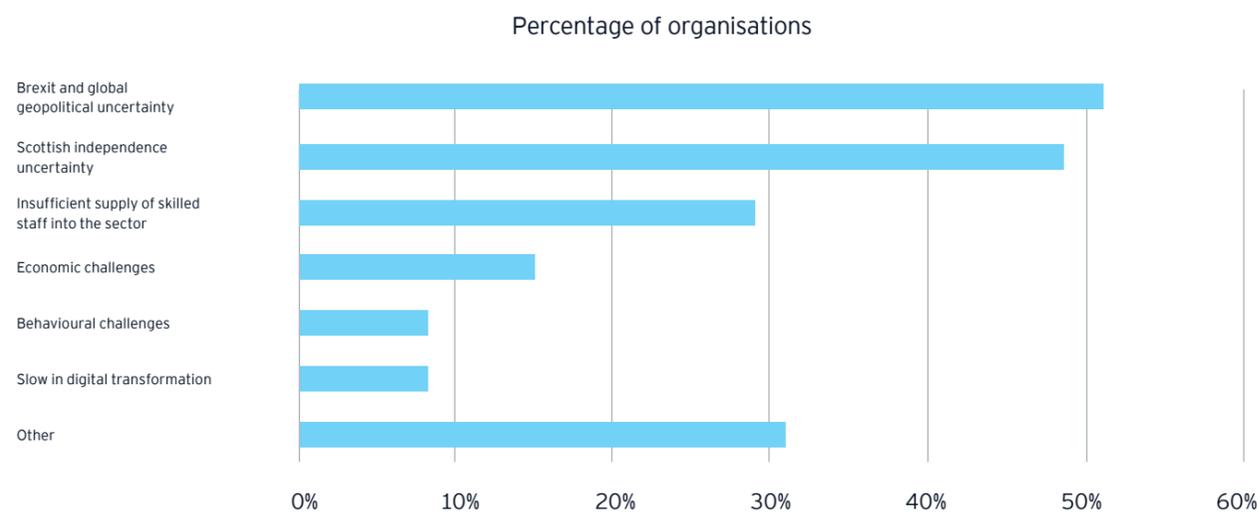
Political landscape

Despite the general positivity in the financial sector over the past few years, political uncertainty and the long-term impact of the COVID-19 pandemic are, unsurprisingly, weighing on sentiment.

It should be stressed that our survey took place between August and October 2019, ahead of the pandemic and also prior to the UK's formal exit from the European Union on 31 January 2020. However, both the uncertain outcome of the negotiations between the UK and its former EU partners as the transitional period following Brexit draws to an end, and continuing calls for a second independence referendum for Scotland, are still key issues for business in 2020.

The organisations surveyed in 2019 ranked Brexit and uncertainty over Scottish independence as the biggest challenges facing the future success of Scotland's financial sector. In the survey, 52% cited Brexit and global geopolitical uncertainty as a key challenge, whilst 48% felt the same way about Scottish independence uncertainty. These factors dwarfed other concerns, with 29% of organisations citing the insufficient supply of skilled staff as a key challenge and 14% citing economic challenges.

Key challenges facing the future success of Scotland's financial services sector



Source: EY survey



Sustainability and the financial services sector

At the time of writing, Glasgow is due to host the United Nations' climate change summit, COP26, in November 2021. The event represents a crucial waymarker for governments around the world to agree on revised or new objectives with the achievement of a net zero economy. It will also focus attention on sustainable finance and the role of the financial sector. Scotland's financial services industry now has a unique opportunity to position itself as a global industry leader in sustainability.

EY defines 'sustainable finance' as any form of financial service that incentivises integration of long-term environmental, social and governance (ESG) criteria into business decisions to provide more equitable, sustainable and inclusive benefits for clients and society.

Building long-term resilience to climate change – and adapting to the measures adopted to mitigate it – will be crucial for Scotland's financial services sector. This will involve not only understanding the risks and exposures associated with climate change and the transition to 'net-zero carbon,' but also appreciating the wider public awareness of environmental issues and the demands that society will place on business to be seen to be doing the right thing.

Firms will need to understand the exposure and risks they face, measure their performance to determine where action is required and find ways to mitigate and reduce climate-related risks. They will also need to embrace consistency and transparency in their approach to the disclosure of climate-related data.

Financial services businesses have a crucial role to play in the transition to a sustainable global society aligned with the United Nations' 17 Sustainable Development Goals (SDGs).⁴⁷ The SDGs are increasingly becoming a key framework around which firms are organising themselves.

Scotland's leading financial services players are also involved in international efforts such as the Global Ethical Finance Initiative, which oversees, organises and coordinates a series of programmes to promote finance for positive change.⁴⁸ Meanwhile, in Scotland, the Ethical Finance Hub provides research, resources and advocacy for the sector.⁴⁹ The EY *Global Climate Risk Disclosure Barometer* shows that banking, for example, is one of the sectors leading the way in the disclosure of sustainability issues and could offer an example to other financial services sub-sectors. It's clear, however, that the industry still has a long way to go, with both the quality and quantity of reporting needing to continue to improve.⁵⁰

In June 2020, EY polled 37 UK financial services organisations on how the COVID-19 pandemic will affect the industry. Nearly all respondents (98%) expect the pandemic will change customer attitudes to sustainable finance. The majority (65%) believe, however, that despite progress being made, the path to a lower carbon economy remains distant; whilst nearly a quarter (23%) believe very few financial services firms currently have the appropriate level of focus on sustainability.⁵¹

EY is helping the Scottish financial services industry to embrace all these changes, going beyond risk mitigation to look at revised strategies, enhanced governance and other issues to help the sector ensure that sustainable finance becomes a reality and not just an aspiration.

Key findings and recommendations

The key findings from the research and interviews conducted for this report can be grouped into three core themes:

- Skills availability and Scotland's demographic pressures
- Investment in, and adoption of, digital technologies
- Industry promotion: showcasing the industry's positive impact on individuals and wider society

Within each of these core themes there are challenges for the industry to navigate, which, if tackled strategically, innovatively, and collaboratively, present a wealth of opportunities.

Skills availability and Scotland's demographic pressures

At the present time, the economic impact of the COVID-19 pandemic is clearly the biggest challenge facing financial services. Our survey indicates, however, that a potential shortage of skilled labour is high up the list of future challenges for the sector in Scotland. The results, below, show that respondents identify this as a key priority.

Q: Which of the options below do you think will be the most important for boosting the attractiveness of Scotland for financial services?

Priority number 1	Enhancing workforce skills
Priority number 2	Enhancing investment in digital technologies
Priority number 3	Reducing taxation levels
Priority number 4	Post-Brexit transition agreement

Source: EY survey

As shown in the chart opposite, respondents identified technology and digital skills as the highest priority, followed by data science and analytical skills. A number of respondents placed risk, regulation and compliance skills as their second or third priority, making this category fourth overall.

Not only does Scotland's financial services industry need to compete with other sectors for talent, especially for technology-related skills, but the country as a whole is facing a significant demographic challenge. It is vital, therefore, that financial services organisations work together to promote the wide range of careers that they collectively offer. SFE is working with Scottish Government agencies such as Skills Development Scotland and Developing the Young Workforce to deliver innovative initiatives such as FastTrack into Financial Services⁵² and the Financial Services Unified Schools Programme.⁵³ These have been designed to encourage access to the industry for people from all backgrounds, experiences and geographies.

Investment in, and adoption of, digital technologies

Our survey results reveal that technology investment will also be of great importance, with financial services companies having to adapt to new technologies strategically (e.g., traditional wealth managers responding to the move to robo-advice), and operationally (e.g., back offices replacing white collar workers with AI-driven technologies). Firms face challenges when it comes to deciding which technologies to invest in, how much to invest and the extent to which solutions can be developed in-house or bought in from external suppliers.

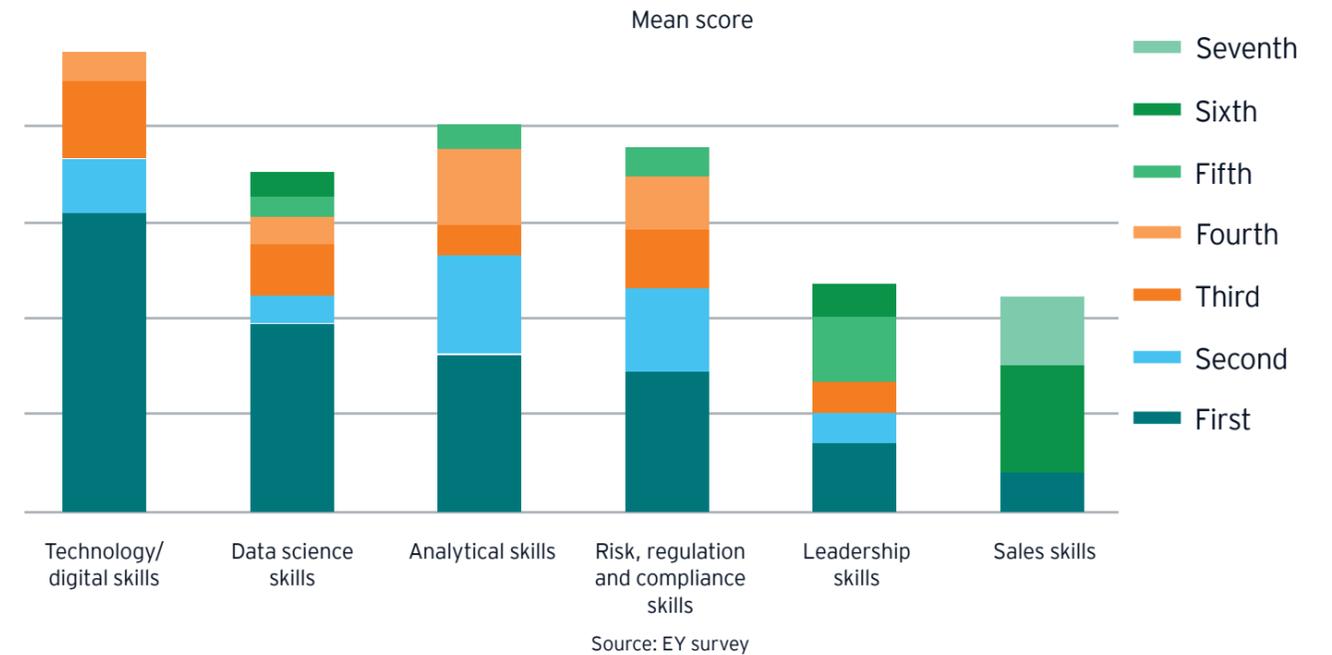
Industry promotion

The reputation of the sector is a key factor in ensuring Scotland's attractiveness to companies, investors and workers. Responsibility for this needs to be led by the industry itself, in close cooperation with the Government and key stakeholder organisations.

One suggestion from our survey was that the sector needs to communicate how financial services contributes positively to the economy directly as well as to society in a wider context, and through the financing of a sustainable economy. The role the financial services industry is playing in helping individuals and businesses to keep going through the COVID-19 pandemic – through its own efforts and in collaboration with government – will hopefully contribute to this.

Also of great importance, and intrinsic to the issue of skills availability, is the ability to collectively showcase the extent of

Key skills needed by the workforce to ensure success in the future



varied, skilled and fulfilling career opportunities within Scotland's financial services industry.

Ensuring a robust recovery

Rapid technological change is redefining the skills landscape and the pandemic has, if anything, accelerated the rate of change in the way people live, work and spend. For Scotland's financial services industry, this is driving the demand for skills at a time when Scotland is also experiencing an acute demographic challenge.

This scenario makes Scotland's financial services sector an ideal candidate for radical forward-thinking in order to protect its unique blend of characteristics. With the right strategic direction, these strengths have the potential to sustain Scotland's position as a world-leading financial services centre and emerge from the COVID-19 pandemic sharper and smarter.

Skills availability and Scotland's demographic pressures

Recommendations:

1. Be strategic with the deployment of the current workforce. Carry out a comprehensive analysis of the skills used by the industry now and map future demand.
2. Increase industry collaboration to build a strong talent pipeline. Once roles and skills of the future have been identified, share the learnings and create experiences to excite and entice people to begin a career in financial services or retrain within the sector.

Investment in, and adoption of, digital technologies

Recommendation:

1. Be efficient and productive in the way we work. The industry must be careful, but not hesitant, in the investment and adoption of digital technologies. It will also be important to automate more administrative jobs, freeing up people so they can add value through roles that depend on human qualities such as the application of emotional intelligence.

Industry promotion: showcasing the industry's positive impact on individuals and wider society

Recommendation:

1. Stress the positive contributions the industry makes to the lives of individuals and wider society. Demonstrate that:
 - The high quality of the industry is worthy of investment to establish or expand financial services operations in Scotland.
 - There are many positive contributions made to individuals and wider society through the services provided by the industry, and the actions taken to support consumers, businesses and the economy during the COVID-19 pandemic.
 - There are a wide variety of exciting, challenging and rewarding careers on offer.
 - The industry has the potential to be an international leader within sustainable finance.
 - There is a commitment from industry to improve diversity and inclusivity.



“

[We] need to change public opinion. We need to educate people that financial services is good for the economy and provides money for social programmes.

Survey participant

Conclusion

At the heart of Scotland's success as a financial centre is the quality of its financial services industry and life satisfaction. Combined with the country's ability to attract and retain skilled people, and the competitive value it offers firms as well as the low cost of living for the individual, this makes a compelling case.

There are also a number of other positive attributes driving growth in Scotland's financial services industry, as cited by the organisations surveyed, such as:

- Good transport infrastructure and links (although not seen as a positive by all survey participants, with some indicating that upgrades will be necessary for the country to remain attractive)
- Being located in the optimal time zone between the US and Asia
- Proximity to clients
- Lower staff turnover than other financial services centres
- The heritage of financial services in Scotland and the existing industry ecosystem

Some respondents to our survey commented on Scotland's ability to capitalise on its size to exploit the opportunity for close collaboration between government, businesses and educational institutions. The challenges that lie ahead are real, but if Scotland's financial services sector can ensure that it continues to recruit a talented, high-quality workforce, invests in digital technology and communicates its value to society and individuals, there is every reason to hope for a bright future.

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