The jewel in the crown?

A short paper on the mystery of the disappearing jobs in UK banking and finance

by William Wright, November 2022

Something funny seems to be going on with the banking and finance industry: the number of jobs in the 'jewel in the crown' of the UK economy is shrinking. As the industry prepares for 'Big Bang 2.0', the number of people employed by the industry has fallen to its lowest level since shortly after Big Bang 1.0 more than 35 years ago.

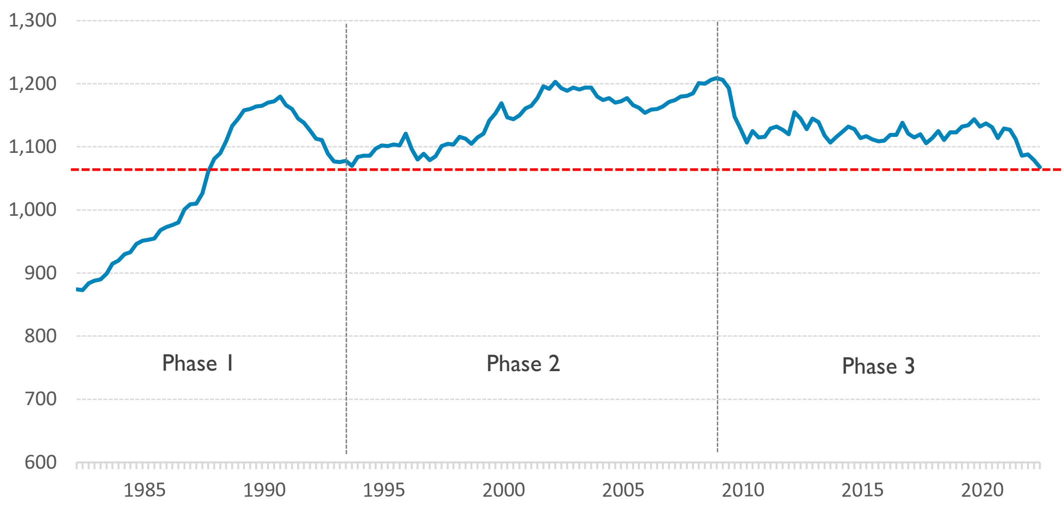
In June 2022, the financial services industry employed 1.068 million people in the UK, according to the latest available data from the ONS. That's a lot of people - just under 3% of the total UK workforce - but it's the lowest level since September 1987. The number of jobs in the industry has been falling for the past three years and the rate of decline appears to be accelerating.

The industry employs 76,000 fewer people today than as recently as September 2019; 61,000 fewer than when the UK left the EU at the end of 2020; and 51,000 fewer than in June 2016 when the UK voted for Brexit. This translates into a decline of between 4.5% and 6.6% depending on which period you choose, but over the same period, the total number of jobs in the UK grew. On our calculations, if employment in financial services had kept up with the growth in jobs in the rest of the economy over these time periods, there would be something like 85,000 to 105,000 more people working in the industry today than there actually are. So, what's going on? And where have these jobs gone?

>>> A long-term view

It is perhaps helpful to start with a long-term view of employment in the industry. This chart shows total employment in financial services in the UK each quarter over the past 40 years, based on data [from the ONS](). There are three clear phases: 1) a rapid boom and bust in the 1980s and early 1990s; 2) a recovery from the late 1990s up to the financial crisis; and 3) a sharp post-crisis fall and a period of relative stagnation over the past decade.

Fig.1 Employment in UK banking and finance 1982 to 2022 ('000s)
Source: ONS



- In the **first phase**, employment in financial services increased by 45% in the 1980s and broke through the one million mark for the first time in September 1986 (one month before the Big Bang reforms in the City of London in October 1986). The numbers defied the stock market crash in October 1987 and kept growing to the end of 1990, before a sharp fall over the next three years. It is worth noting that in September 1987, the last time the industry employed fewer people than it does today, the total number of jobs in the UK economy was nearly a quarter less than today, so the share of banking and finance jobs has shrunk significantly.

- In the **second phase,** the industry started a sustained recovery in the mid-1990s: it broke through 1.1m jobs in the second quarter of 1997 - when Tony Blair was first elected as Prime Minister - and stayed above that level for 97 quarters in a row until last year. The industry brushed off the dotcom crash and the recession in the early 2000s, and rallied to a new peak of just over 1.2m employees in 2008.

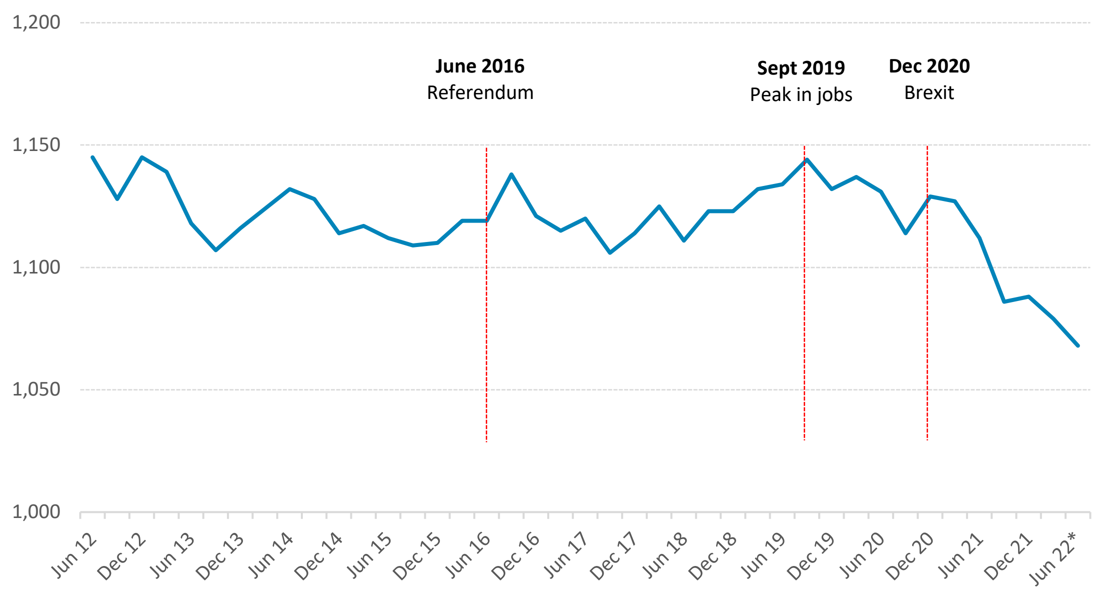
- And since then, in the **third phase**, the industry shed more than 100,000 jobs in the aftermath of the financial crisis before a decade of relative stagnation in employment in which the numbers bounced around between 1.1m and 1.15m ever since. Until now. They started falling from a near decade high of 1.144m in September 2019 and dropped below 1.1m for the first time in nearly 25 years in September 2021 to 1.068m today.

>>> A closer look

Here's a closer look at the numbers over the past 10 years which shows employment in the industry bouncing around in a range of 1.10m to 1.15m jobs until last year.

In June 2016, when the UK voted to leave the EU, the industry employed 1.12m people (51,000 more than today). By September 2019, employment had reached 1.14m, its highest level for nearly 10 years and 76,000 more jobs than today. And when the UK left the EU in December 2020, this had fallen to 1.13m. Since then, the number of jobs has dropped by more than 5% (61,000) to 1.068m.

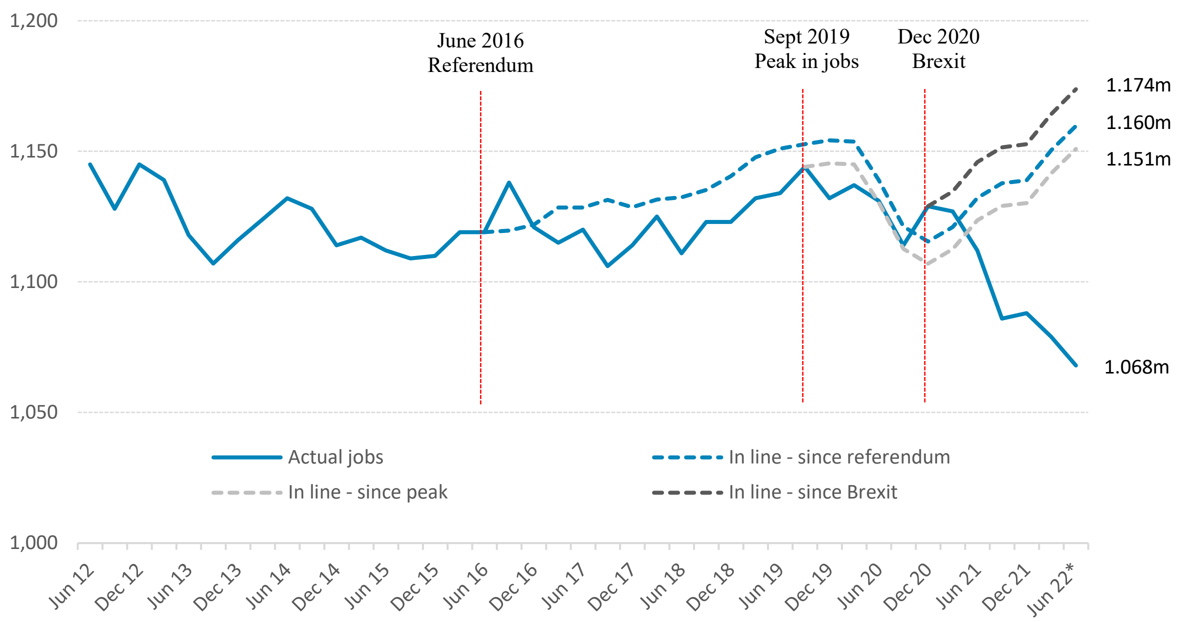
Fig.2 Employment in UK banking and finance 2012 to 2022 ('000s)
Source: ONS



The absolute decline in employment over this period is bad enough, but the decline relative to the rest of the economy is even worse. Here is the same chart but with dotted lines showing what would have happened to employment in banking and finance had it grown at the same rate as the jobs in the wider economy since the referendum (dotted blue line): since jobs in financial services peaked in September 2019 (dotted light grey line); and since the UK left the EU in December 2020 (dotted dark grey line).

While jobs fell sharply in all sectors in the UK in 2020 because of the Covid pandemic, they kept falling in financial services in 2021 and 2022 as the rest of the economy recovered. The net result is that between 83,000 and 106,000 more people would be working in the industry today if employment in financial services had kept up with the rest of the economy. Our central estimate is that if jobs growth in financial services had kept up with the wider economy since the Brexit referendum, there would 91,000 more jobs in the sector in the UK than there are today.

Fig.3 Employment in UK banking and finance 2012 to 2022 ('000s)
(Dotted lines show what would have happened if employment had kept up with jobs in wider economy)
Source: ONS



>>> So what?

This 'jobs gap' matters: financial services is one of the most successful and productive sectors of the UK economy and generates more than 10% of all government tax receipts. At a time when the UK economy needs all the help it can get, it is concerning to see the number of jobs shrinking. Many of these jobs are highly paid: the median income per full-time employee in financial services in the UK is £43,500 (around 40% higher than national average). This income generates around £11,400 in income tax and national insurance for the government. If you multiply that by 91,000 'missing' jobs you get just £1bn in 'missing' tax receipts, which would come in quite handy right now. And that's before you consider the direct and indirect economic impact of tens of thousands of highly paid jobs across the UK economy. The decline in jobs may also add some urgency to the package of reforms to the regulatory framework for banking and finance that the UK inherited from the EU.

On the other hand, it *may* be the case that this decline is statistical noise and the numbers will soon return to their traditional band of 1.1m to 1.2m. And it may not matter so much (or even be a benefit from a productivity perspective) if the headline output of the industry remains constant or is growing.

>>> An international comparison

Financial services is, of course, an international industry, so perhaps the same thing is happening in comparable markets with well-developed financial services like the US, France, Canada, Switzerland, or Japan? The short answer is 'no'.

Comparing employment by sector in different countries is imprecise because of the vagaries in national statistics, but in most other countries employment in banking and finance has been growing over the past five years.

We looked at nine other countries and in all but three of them (Germany, Italy, and the Netherlands*) employment in financial services grew between mid-2016 and June this year, based on a combination of data from national authorities and the OECD.

In the US, employment increased by more than 8%, in Canada by 6%, and in France and Switzerland it increased by more than 2%. If the UK had kept up with the average growth in financial services jobs of just over 4% in these markets between June 2016 and June 2022 there would be an additional 97,000 people working in the industry (roughly the same as our central estimate).

(As an aside, the UK probably shouldn't be benchmarking its financial services industry against Germany or Italy, which are notoriously over-banked and inefficient.)*

>>> So, what is going on?

There is no single reason why the number of jobs in financial services in the UK has been falling for the past few years, but we think there are a number of interconnected factors at work, which deserve further research:

- **Brexit:** it is striking that the decline in employment in financial services industry appears to have set in shortly after the referendum in June 2016 and accelerated since the UK formally left the EU in December 2020. We think that Brexit has played a significant role in this decline on several levels. First, the physical relocation of jobs and activity from the UK to the EU, which we estimate is around 10,000 jobs and counting. Second, Brexit accelerated a process of restructuring in the industry as firms reviewed their footprint and operations as part of their contingency planning. And third, it has acted as a brake on inward investment (see below).

  One of the arguments in and around financial services often used by supporters of Brexit is that the direct impact of job losses from relocations would be more than made up by growth in the rest of the industry. Here's an academic paper arguing that the growth in jobs in banking and finance in the years after the referendum showed that the impact of Brexit on the industry had been overstated, and here's a comment by pro-Brexit commentator Andrew Neil arguing the same thing. It would be churlish to say 'we told you so', but this argument turns out not to have been the case.

- **Inward investment:** the past six years have been the most politically volatile and uncertain in living memory: the UK has had five prime ministers since 2016, compared with five prime ministers over the previous 37 years. This instability, combined with a lack of clarity on policy and the UK's relationship with the EU and the rest of the world for much of this time, has acted as a drag on inward investment in financial services. While some firms have taken the plunge - for example JP Morgan Chase launching a digital only bank in the UK last year - many financial services companies may be thinking that the UK lacks the long-term stability for new investment for the time being.

- **Efficiencies and branch closures:** advances in technology, changes in behaviour, and improved IT and systems, mean that many jobs in banking and finance have been made redundant. This is particularly the case with jobs in branches in retail banking being displaced by online banking. While this will have been a factor in the decline in jobs across the industry, efficiencies from better IT and programme of branch closures have been a feature of the industry for the past few decades so can't explain the decline on their own. In addition, other countries are also grappling with this trend without the number of jobs in the industry falling.

- **Off-shoring:** one of the trends in banking and finance over the past years that has been accelerated by Brexit in the past few years is offshoring, and we thinking this has been a significant factor in the decline in jobs. Brexit forced companies to review their footprint in Europe, and many of them found that they employed a disproportionate number of support staff in expensive office in London and the rest of the UK. Many firms such as Credit Suisse, NatWest, Standard Chartered, and UBS have offshored large parts of their support operations to countries like Poland - not because of Brexit, but because it's a lot cheaper than employing them in London, Edinburgh, Manchester.

- **Fintech:** the UK is one of the leading centres for fintech in the world. But the flipside of successful and innovative fintech companies is that they destroy jobs in traditional finance. It is hard to put a number on the potential impact, but you could perhaps safely assume that every new job in fintech destroys at least two or three jobs (probably more) in traditional finance. It may (repeat, may) also be the case that some of the rapid growth in fintech jobs in the UK is being mis-allocated and that the jobs are being counted by the ONS under IT and software, not under financial services.

- **Covid:** the impact of the Covid pandemic on jobs across the economy is clear, but the big difference with banking and finance is that - unlike the rest of the economy - employment never recovered. Rather than Covid being the specific cause of the decline in jobs, we think the pandemic accelerated trends such as the adoption of online banking and fintech, and catalysed offshoring and efficiencies that in turn fed through into lower employment.

We don't know what the answer is, but we do know that these numbers are both surprising and worrying. Please contact us on info@newfinancial.org with any comments or suggestions on what you think is driving these numbers, what we have missed, or the sort of work we could do to better understand what's going on.

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