

John R. Bryson

## Post-Brexit, Fintech and London's Continued Future as a Global Financial Services Centre

All cities are complex as they reflect the on-going accumulation of investments in a place. These place-based investments also link a city with other places through infrastructure investment. This on-going layering of resources in place and across space provides a city with different forms of comparative advantage. This concept can be traced back to David Ricardo's theory of international trade that was published in 1817. Ricardo argued that a place, or a nation, should concentrate resources in industries in which it has some form of comparative advantage.

Comparative advantage emerges in a place based around those economic sectors in which there is some place-based

industrial revolution. Lloyd's of London began in a coffee shop in 1688 and obtained a monopoly on maritime insurance that was maintained until the early nineteenth century. From the seventeenth century, specialist financial services evolved to underpin the import of raw materials and the export of completed manufactured goods. Financial services acted as a lubricant and catalyst of the industrial revolution.

Second, there are tangible and intangible assets that underpin the development of London as a global financial centre. These include communication networks that were initially developed to support the British Empire as well as re-

This advantage is the United Kingdom legal system which is based on common law, or case law, whilst that of the European Union and its member states is based on civil law. One reading of Brexit is that the European Court of Justice was increasingly imposing civil law on the English common law system, and this was creating tensions that would also eventually undermine London's position as a global financial centre. Common law was institutionalized in England around 1180.

Civil law is based on codes, regulations and laws that are developed and which can be applied to any conceivable circumstance. Thus, law is developed in advance of any innovation and imposed upon innovation. Common law is based on establishing precedent set through cases; law is then created in response to innovation and emerges in written statements produced by judges. Civil law tends to regulate out innovation in advance whilst common law enables innovation and then engages in regulation.

These three processes worked together to transform London initially into the British Empire's financial services centre and then into a global financial centre. In addition, London became the most important European financial centre. The most important global financial centres operate globally as the command and control centres of the global economy (see figure). In many respects, the three most important global financial services centres are largely disconnected from their national economies; many of the financial flows they manage and regulate are about global rather than national transactions.

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**“London began to develop as a financial services centre to support the industrial revolution.”**

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advantage related to the application of available resources. During the nineteenth century London developed comparative advantage in the provision of financial services.

This raises two important questions: how and why did London develop this form of comparative advantage? What impacts will Brexit have on the role London has played as Europe's most important financial sector? London's comparative advantage in financial services can be traced back to three processes.

First, London began to develop as a financial services centre during the late seventeenth century to support the in-

related and supporting industries that facilitated financial services development and innovation. The latter include specialist legal and finance-related services. A financial services ecosystem began to develop, and this can be traced back to the late seventeenth century and even earlier.

### Common Law as a Catalyst

Third, London has a comparative advantage that is not held by cities such as Frankfurt, Paris, Zurich, and Luxembourg. One could argue that this is an unfair advantage as it has played a central role in transforming London into one of the most important global financial centres.

One assessment of financial services centres is found in the Global Financial Centres Index. The current index was released in September 2020 and this ranks 121 financial centres. In 2020, New York continued to retain its first place, but London had closed the gap. In the 2020 index, Shenzhen and Zurich had displaced Los Angeles and Geneva from the top ten.

### Brexit Fallout

There is no question that London is one of the most important global financial centres. London's global comparative advantage in financial services has benefit-

some member states to develop alternative European financial centres.

London's competitive advantages in the provision of global financial services will ensure that this city will continue to play a major role in global and even European financial services. There are at least two problems for the EU to overcome if it intends to establish a European financial centre that will displace London and that would result in the development of a new European global financial centre.

First, London's financial services ecosystem is well-developed and is extremely complex. The city plays a central role not

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ted the European Union and all member states. London has acted both as a source of financial services expertise and innovation as well as facilitating access to global flows of capital.

Brexit has removed London from the EU and this comes with both advantages and disadvantages for London and the EU. For London, financial services firms have had to adjust to a new financial services geography by shifting activities to cities like Dublin, Amsterdam, Frankfurt, and Paris. A study by the New Financial thinktank that was published in April 2021 identified that 440 financial services firms had shifted activities, and around 7 400 jobs, from Britain to locations within the EU. Dublin gained the most with 135 relocations followed by Paris (102), Luxembourg (95), Frankfurt (63) and Amsterdam (48). Nevertheless, London still plays a key role in underpinning Europe's financial system.

Negotiations regarding the role London might continue to play within the EU are still on-going. Nevertheless, it is unlikely that the EU will permit London-based financial services companies to have direct access to the European market. Perhaps the likely outcome will be attempts by

just in the provision of European financial services but in global services. London considers itself to be first and foremost a global rather than a European financial centre. Its financial services companies act globally rather than nationally or at a European level. There is no comparable existing European financial centre. After the June 2016 referendum in which the UK decided to leave the EU many rival European financial centres targeted London based financial services companies trying to persuade them to relocate to cities like Dublin, Paris, and Frankfurt. Nevertheless, it is impossible for another European financial centre to replicate London given London's heritage, accumulations of financial services skills and the UK's system of common law.

### An Unfitting Environment

In 1953, P. Sargant Florence, who was then Professor of Commerce at the University of Birmingham, published a book that explored the logic of British and American Industry. In this account, he argued that regional competitiveness is based on a unique concatenation of linkages and the ability of entrepreneurs to benefit from distinctive local resources.



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Brexit has undoubtedly caused a shift in Europe's financial services industry. If this shift is for better or for worse remains to be seen as financial institutions reassess their position in the European and global contexts and negotiations between the United Kingdom and the European Union continue. While there have been companies that moved away from London and spread out across other European financial centres a prophesied exodus has yet to happen. John Bryson argues that London will retain its status as a financial services centre even if its access to the European market will be barred by regulation and unwillingness to cooperate on a political level. Instead, London's heritage and the United Kingdom's legal culture will allow for companies that already have a global interconnectedness rivalled only by financial centres like New York or Singapore to broaden their scope from a European stage to a global one. For Bryson, the chance that a similar global player will emerge in continental Europe, either by virtue of its own existing structures or due to a transplant of companies moving out of London, is comparatively low. (ed.)

In addition, he argued that this type of regional complex could flourish elsewhere, but he emphasised that this would require the relocation of the complete complex.

In the case of London, moving tasks and employees from 440 financial services

## The Top 10 Global Financial Centres and the Global Fintech Ranking, 2020

Global Financial Centre	Global Financial Centre Rank	Global Fintech 2020 Index, Rank
New York	1	3
London	2	2
Shanghai	3	31
Tokyo	4	17
Hong Kong	5	11
Singapore	6	4
Beijing	7	23
San Francisco	8	1
Shenzhen	9	80
Zurich	10	38
Luxembourg	12	79
Geneva	14	89
Frankfurt	16	39
Paris	18	15
Amsterdam	22	24

Source: The Global Financial Centres Index 28 and The Global Fintech Index, 2020

firms would be insufficient. To Florence, displacing London's role as a financial services centre by the emergence of a new European global financial centre would require a process that would be similar to the swarming of bees; all the resources, linkages, affiliated and supporting infrastructure would have to be relocated to a place with similar levels of connectivity to London. In this scenario, cities like Paris or Frankfurt would have to displace civil law with a version of English common law.

The importance of English common law in facilitating financial services has been recognised by non-European financial services centres. English common law, based on legal precedent, underpins global financial centres like New York, Hong Kong, and Singapore. In 2015, Abu Dhabi Global Market, for example, adopted English common law when it opened for business in October 2015 and by 2020 was ranked 33 out of 111 global financial centres.

Second, it might be possible for one of Europe's existing global financial services centres to displace London as Europe's premier centre, but this would require European financial services to concentrate in one city. At the moment, cities like Amsterdam, Frankfurt, Paris, Milan and Dublin are competing with one another for a share of the European finan-

cial services market. They are also all competing with London trying to persuade the relocation of financial services activities and employees. But the problem is that spreading financial services activities between many centres across the EU will not result in the formation of an integrated, or full service, European global financial centre. It is worth noting that the emergence of London as the UK's premier financial centre led to the destruction of the financial services industry in cities like Birmingham and Manchester. All financial

services, with some few exceptions, were concentrated in London.

### Stability and Disruption

What does this mean for London and the EU? There are two points to draw out from this argument. On the one hand, London as a global financial services centre has four advantages that are not held by rival European centres – existing scale and networks, capabilities including related and affiliated services, a supportive legal system and speedboat agility. The

last point is important. Decision-making within the European Commission is comparatively slow as it requires consultation with member states. For the UK, post-Brexit political decisions can be made extremely rapidly. The European Commission is perhaps extremely foolish in trying to ensure financial services in London are excluded from European markets.

This will damage business interests across the EU. It will also encourage London based financial services to innovate and to develop and further consolidate the city's position as a global rather than European financial services hub. It might be possible to persuade the London government to enter into some form of agreement that would grant access to European financial markets that might also restrict London's agility to continue to evolve as a global financial services hub. In any case, the UK would be extremely unlikely to agree to these types of restrictions.

On the other hand, it is important to consider disruptive innovation and what this might mean for the existing global financial services centre hierarchy. Fintech continues to transform financial services delivery focusing on developing solutions to global problems including access to financial services in emerging economies

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and in increasing the speed of financial service transactions. The emerging new geography of Fintech global financial services centres will be very different to the geography of existing global financial services centres (see figure).

It is no surprise that in the US, Silicon Valley plays an important role in Fintech innovation centred on places like San Francisco, Redwood City or Palo Alto. New York still plays an important role but slips from first to third place in the global Fintech centres rankings. For Europe, the premier Fintech centre is London which

holds the second place in the global rankings followed by Berlin which is in ninth position. Frankfurt is ranked at 39, Paris at 15 and Amsterdam at 24. If the future of financial services is in Fintech, then Berlin might emerge as the most important location within the European Union.

### A Shift in Focus, not in Location

The key point to note from this analysis is that the two premier and truly global financial services centres of New York and London have something in common compared to cities like Frankfurt, Luxembourg, and Paris in that they are both in the top three rankings for being global financial centres and global fintech centres. All this highlights that both London and New York have developed sophisticated, agile, innovative, and complex financial services ecosystem. This type of ecosystem had not developed in other cities across Europe; London is the only European city to develop the depth and breadth of financial services to compete with New York.

There is no question that Brexit has transformed, and continues to transform, the geography of European financial services. There have been jobs lost from London and tasks that have been shifted to other European cities. Nevertheless, Brexit will not alter the role London plays as a global rather than European financial services centre. For London, Brexit has altered its future, as it forces financial services firms to enhance their focus on the provision of global financial services to key growth spots across the planet.

This is beneficial as the global centre of economic growth continues to shift East towards China and India and away from Europe and North America. For Europe, ideally a dominant European financial services centre must emerge that potentially might become a major global rather than European centre. Nevertheless, it seems unlikely that such a centre will emerge to displace London given the continued fragmentation of financial services provision between cities like Frankfurt, Paris, Amsterdam, and Dublin.



Udo Milkau

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