



The Financial and Professional Services Dinner

Egyptian Hall, Mansion House

Monday 10th July 2023

The Rt Hon The Lord Mayor of London

Alderman Nicholas Lyons

Mr Chancellor. Governor. My Lords. Fellow Aldermen. Sheriffs. Mr Recorder. Ladies and Gentlemen.

Good evening and a very warm welcome to Mansion House for the Financial and Professional Services Dinner.

Governor, it is a pleasure to welcome you back.

Chancellor, I look forward to your first Mansion House speech as Chancellor.

One of your predecessors noted that he was used to a slow handclap after he had spoken, but never beforehand.

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Chancellor, you and I took up our roles within a few weeks of one another last autumn...

...and I am sure I'm not alone in feeling that there's been a meaningful shift in the state of play in the UK since then.

Relations with the EU are warmer since the Windsor Framework...with the memorandum of understanding, signed last month, ushering in a new era of cooperation on financial services...

A new King provides a new drive and energy – an ambassador particularly for sustainability and biodiversity...

And - for the most part - politicians are now focused on issues, not personalities.

Inflation remains high and for many in our country the situation feels bleak.

...a point the Governor will address later.

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But controlling inflation is only one part of rebuilding our economy...the other, of course, is stimulating economic growth...

Which is where the UK's financial and professional services sector comes in.

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There is no city in the world that could convene the breadth and depth of talent that is represented in this room tonight.

The UK's FPS sector produces 12% of our economic output and supports more than 2.5 million jobs...

It generated £278 billion in economic output in 2022.

It directs capital into the real economy, and helps people save for their future and protect the things they value.

The FPS sector truly is the engine of our economy.

But our global competitors are revving their own engines...

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My mayoral theme - Financing our Future - has centred around deploying capital and expertise to supercharge economic growth nationwide and grow our global competitiveness...

And, in March, the Policy Chairman, Chris Hayward, and I convened a group of City leaders to come up with a long-term plan to reinforce the UK's role as a pre-eminent global financial centre.

With a focus on four key areas -- raising the level of investment...digital, tech and innovation...sustainable finance...and international promotion -- this Roadmap to 2030 and beyond will build on today's announcements and look at what will need to happen over the next Parliament for UK financial and professional services to thrive, and the wider economy to prosper...

...and we're excited to share those findings in September.

Our work has been informed by the first State of the Sector report on the attractiveness and international competitiveness of UK financial services...published by the City Corporation and HM Treasury at last year's FPS Dinner...

...and will be influenced by the second State of the Sector report, hot off the press today.

The new report shows the UK remains Europe's fintech hub...and we're still the only place that leads in both conventional and green financial centre rankings.

Yet, amongst many strengths, it also highlights that the London Stock Exchange is losing its share of global market capitalisation, having fallen from 7% in 2018 to 5% in 2022...

And, last month, WE Soda cancelled its proposed IPO...saying investors "remain extremely cautious about the IPO market."

The landmark Financial Services and Markets Act addresses many of the sector's issues.

The PRA is consulting on significant reforms to Solvency II to improve the competitiveness of the UK insurance market - and these must not be watered down...

And views are being gathered on how delivery against the regulators' new secondary "growth" and "international competitiveness" objectives should be measured.

Change is happening,

But we need to talk about the elephant in the room...

...which is having a particular impact on whether companies stay and scale and invest in the UK:

And that is our appetite for risk and our attitude to business success.

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A sensible aversion to excessive risk-taking that took hold in the wake of the global financial crisis has, arguably, developed into a full-blown allergy to anything deemed remotely “risky”.

And it’s our innovative firms, that are trying to do something new, that are suffering.

Though we’re good at helping companies off the ground, the UK lacks deep pools of accelerator capital...forcing them to head to non-UK capital providers to secure scale-up funding.

I issued a warning about this at the Lord Mayor’s Banquet last November...

...and I hear it being echoed by other influential figures.

To quote from the State of the Sector report, to ensure our future prosperity, “political and business leaders should set the right tone and welcome entrepreneurship, risk taking and business success.”

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I believe that tonal shift...which we'll examine further in the upcoming Roadmap to 2030 report...should start in our pension ecosystem...

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I spend around a quarter of my time on official visits abroad, and I see how other nations are using pensions to fuel their economies and help pension savers.

Some of the Canadian state pension funds and Australian supers - the most successful pension schemes over the last 30 years - invest between 35% and 50% in unlisted assets.

- in infrastructure, private debt, private equity and real estate.

Of the around £3 trillion of assets that sit in UK pension funds, only 7% are invested in those same asset classes.

At the same time, 87% of DC scheme members are expecting a shortfall in retirement income...

And estimates suggest that a 22-year-old new entrant to a DC scheme with just a 5% allocation to unlisted equities could achieve a 7-12% increase in total retirement savings.

Building on the great work of the Productive Finance Working Group, in March, the City Corporation published our Powerful Pensions report: setting out these issues...and proposing a way forward.

And, at the Chancellor's request, we've been working to build a consensus around the idea of DC pension funds allocating more assets to unlisted equities...

A move that will ensure high-growth firms in sectors like fintech and biotech can stay and scale in the UK...and support the development of much-needed new sustainable infrastructure in areas of the country that have felt left behind...while improving the retirement incomes of millions of UK pension savers.

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I'm pleased to announce that this work has reached a new milestone.

Tonight, the Chancellor and I watched the CEOs of nine of our largest DC pension schemes, representing around two-thirds of the DC market, sign an agreement - the Mansion House Compact - committing them to allocate at least 5% of DC default funds to unlisted equities by 2030.

...with the aim of unlocking over £50 billion of new capital by the end of the decade.

And I would like to thank EY for the immeasurable support they have provided on Powerful Pensions and as secretariat to the Compact.

Signatories to the Mansion House Compact...a joint mission, but spearheaded by the private sector...will invest via existing investment vehicles and new ones...

And that could include a joint investment vehicle such as the Future Growth Fund - an idea many will have heard me talk about before.

The smaller average size of UK funds creates a problem of scale and expertise.

A new growth fund...with critical mass to achieve deep expertise and broad diversification...could allow DC funds to share the risks and the benefits of investing in unlisted equities, whilst keeping costs modest.

And the City Corporation stands ready to support the formation of such a fund.

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The fragmented nature of our pension landscape is another challenge if we want to see more investment in the UK.

Sir Nigel Wilson, chief executive of Legal and General, is producing a report on the future of the UK's capital markets...and it will be well worth reading.

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Friends,

There are valid reasons why our pension system has been conservatively invested for so many years. And I understand why what we're doing has caused some to pause for thought.

But few, even in the pensions industry, could deny the need for reform. And, in the words of the CEO of the LSE, Julia Hoggett, "we're not asking for radical risk taking..."

"We're just asking that our pension funds do what other established funds do."

A modest - yet meaningful - allocation to unlisted equities...

...done on a voluntary basis, by pension funds that want to get the best returns for savers.

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While we've been working closely with the Chancellor on this, I'm delighted the shadow chancellor, Rachel Reeves, has also come out in support of plans to tackle pension reform and get more businesses listing in London.

This is a cross-party issue...

And whoever wins the next general election will need to carry this work forward to improve people's pensions, rebuild the UK, and ensure homegrown businesses can thrive here.

Conclusion

When I became Lord Mayor last November I was asked what success would look like at the end of my year.

I said that my goal was to change the narrative about the City of London and financial services, and to put them back at the centre of the economic dialogue, where they belong.

No country depends more on their financial and professional services expertise, and no country enjoys the level of talent that works here. That is a point acknowledged the world over, wherever I travel.

I came into this role determined to show that the Square Mile is resilient, resourceful and responsible.

The first way we do that is by using our collective experience and expertise to tackle huge problems in the UK and beyond...

And I'm pleased to have delivered against commitments I set out at the Lord Mayor's Banquet:

Holding the inaugural Financial Literacy and Inclusion Summit and the second Net Zero Delivery Summit here at Mansion House this spring.

The second way we do it is by ensuring our FPS sector is driving economic growth and financing our future...

...and the Roadmap to 2030 and Mansion House Compact signed tonight are instrumental to that aim.

Action, President John F. Kennedy said, comes with "risks and costs."

"But they are far less than the long-range risks of comfortable inaction."

Ladies and Gentlemen, the time for comfortable inaction is over.

With our politicians, civil servants, regulators and the private sector working together to deliver a more competitive UK, we can now take those first, decisive steps on the path back to prosperity. Thank you.