

Speech: Annual Investment Association Dinner: Speech by the Chancellor of the Exchequer

My Lord Mayor, Ladies, and Gentlemen.

As ever it's a pleasure to be here tonight.

I realise I am underdressed as usual – I got used to it at MOD.

A friend of mine's a fund manager and I asked him his advice to make £100,000 on the stock market. He said "start with £200,000".

That's the problem with investment management jokes – investment managers don't find them funny, and the rest don't think they're jokes.

When you stop and think about it – there are certain similarities between being Chancellor and an investment manager.

Both tasked with managing large amounts of other people's money, and invariably promising things that you may struggle to deliver.

Questionable whether voters or investors have shorter time horizons and less patience.

Two weeks ago I was in Birmingham for the Conservative Party Conference...

...and last weekend I was in Bali for the IMF meetings.

Now I know what you're thinking...

...these places are quite different and have little in common...

...and you'd be right – the beaches of Bali have nothing on the canals of Birmingham.

In both places however, the theme was the extraordinary change the world is going through.

In politics, in economics, in technology – I heard from people experiencing this change in their jobs and everyday lives in Birmingham...

...from the world's finance ministers gathering in Bali...

...and here tonight amongst businesses and investors in London.

And this shouldn't be surprising...

...because we are living through the early phases of a Fourth Industrial Revolution...

...which is affecting all of us...

...the world is being transformed through new opportunities from breakthrough technologies in everything from medicine, to AI, and robotics.

We face new challenges too, from upskilling the next generation – to demographic pressures we're facing...

...which on current trends suggests that by the end of the next Parliament more than half the population will consist of royal babies.

In the coming years the speed and scale of the technological revolution will only grow.

And if the UK is going to keep up – and if we are going to continue to grow, create jobs, and raise the living standards of our people – our economy will need to continually adapt and to remain competitive.

And in no sector is this more important than our financial services sector...

...the success which is somewhat of a bellwether for the success of our economy:

Employing over 1 million people – 2/3 of whom are outside London;

Making up 28% of our services exports;

And lending half a trillion pounds to UK businesses.

The pace of technological change in our financial services industry has already been extraordinary:

A decade ago only a 1/3 of us used online banking...

...today it is 2/3...

...with 160 of us logging on to our banking apps every second...

...and contactless payments growing an astonishing 115% in 12 months alone.

Asset Management

And tonight, we are here, of course, at your second annual dinner, to celebrate a critical part of this sector...

...our world leading investment management industry.

And before I let you get on with your dinner...

...I want to say a few words about how we in Government and you in industry can navigate the challenges and opportunities ahead...

...to ensure that post-Brexit, Britain continues to be a world leader in investment management.

Why is this important to me?

It isn't just because the sector employs 100,000 people up and down the country...

...and nor even because it contributes over £5bn of tax revenue every year...

...but because – through your workplace pension and other means – 75% of British households benefit from the services of an asset manager...

...although most don't realize it...

...and because you invest billions of pounds in technology, businesses, and infrastructure...

...keeping our country growing, moving, and innovating...

...and acting as a magnet for other high-value added sectors, such as investment banking, to cluster around it.

So as Chancellor – it is an absolute priority of mine that through the Brexit negotiations, and the technological change to come, this sector continues to be world leading.

And the evidence suggests we're not doing too badly:

The UK is the largest investment management centre in Europe – and the second largest world-wide...

...it grew an astonishing 12% last year – to £9.1 trillion assets under management...

...£7.7 trillion of which are managed by companies represented in this room tonight...

...which means if you're feeling generous you could pay off the national debt four times over tonight.

And my message to the room is this:

We are one of the great investment management centres in the world...

...we have been for centuries...

...and we face this moment of change from a position of great strength:

Our language is the global language of business;

Our legal system the jurisdiction of choice for commerce;

Our world-class universities and schools contribute to the pluriculture that makes the UK such a favoured place to live and work and grow a business;

Our tech sector is the innovation leader in Europe;

And we are the global capital for international finance and professional services;

The place you come to access leaders in banking; insurance; law; accountancy; consulting; and, of course, investment management.

But the key point is that Britain's strength is more than the mere aggregation of these things...

...it is the symbiotic effect of bringing together the world's leading financial centre, a global innovation hub, research centres of excellence, a global leader in creative industries, and a vibrant and diverse culture...

...all of which builds an ecosystem of prosperity.

Brexit

And of course – the immediate key to maintaining this ecosystem – is ensuring we get a good Brexit deal – and protecting markets from uncertainty during transition.

And let me be clear:

This Government is 100% committed to getting a Brexit deal that protects jobs, growth, and investment...

...and we are resolute in securing a deal that allows services, and especially financial services to flourish and grow.

We have set out in our Future Partnership White Paper our proposal on our future financial services relationship with the EU.

And what we have proposed is logical:

A framework that allows the benefits of UK-EU financial services trade to continue – and maintains open markets, and deep regulatory cooperation.

Under our plan we would build upon the EU's existing 'equivalence' regimes...

...but expand their scope to recognise business activities that are in the interest of both the EU and the UK...

...but not currently covered by the existing regime.

This framework would be grounded in a legally-binding bilateral agreement governing process, with institutional arrangements for regulation and supervision to provide long-term certainty for firms and investors.

Of course – we recognise that this will be a new kind of relationship – reflecting a new balance of rights and responsibilities...

...with decisions relating to access and to our respective markets being decided individually by both sides...

...but within a clear bilateral framework of process that ensures the arrangement is commercially viable – for example through appropriate notice periods for any changes.

There is no reason at all why this new kind of relationship cannot support deep levels of trade and interconnectivity...

...even though we will be outside of the EU, the Single Market and Customs Union.

This is surely in the interests of all of our consumers and businesses?

I can tell the room tonight that we have had good working level discussions with the European Commission on our proposals...

...and negotiators have found plenty of common ground – so I hope, and expect, that logic and pragmatism will prevail...

...and that we will reach agreement on a future framework that preserves jobs and protects investment on both sides of the channel.

I know for people in this room tonight there is a specific and important question over the regulatory cooperation agreements that underpin portfolio delegation.

I am clear: these delegation arrangements are critical to the investment management sector.

And the direction of travel globally – in this case, strongly supported by the US – is to liberalise.

Investment Management is incredibly important to the UK's financial services ecosystem...

...but these services are also just as important for the EU – portfolio delegation allows the UK investment management industry to run 35% of the assets under management in the EU – more than twice as much as any other member state.

So – as we made clear in the Technical Notices we published over the Summer...

...we expect these arrangements to continue...

...this model is the global norm, and there is no reason why it should not continue to be so.

The FCA stands ready to agree these MoUs...

...I was pleased to hear the Chairman of ESMA say he plans on having these agreements in place well before March...

...and the Chairman of the French Market Authority say he has “absolute conviction” that they will be agreed before we leave the EU.

I share his view.

We will continue as now during the implementation period...

...with no discrimination possible under EU law...

...and we will then reach agreement as part of the Future Economic Partnership to allow this business to continue to our mutual advantage.

Investment Management Strategy

Other than the small matter of the Budget in just under two weeks – Brexit is, and must remain, my most immediate priority as Chancellor.

But I am also focused on what next.

How Britain remains the global powerhouse for financial services that it is today, through Brexit and through the technological change and that is to come.

And how the financial services industry – and investment management in particular – can support the investment our economy needs in the infrastructure and technology of the future.

At my last Budget I launched our Patient Capital Review – a 10 year action plan to unlock over £20 billion of long-term finance for high-growth innovative firms...

...and since then we have put £2.5 billion into the launch of British Patient Capital; we've expanded and re-focused the tax reliefs available for Venture Capital Trusts and Enterprise Investment Scheme...

...and we've worked with the investment management sector to explore how we can unlock pensions investment in patient capital...

...and specifically the untapped firepower of defined contribution pension schemes which we expect to hold over £1 trillion of assets by 2025...

...and at my Budget in a couple of weeks I will say more about how we can ensure DC pension funds are able to make long-term investment decisions, for the benefit of both their members, and the wider UK economy.

I also want to ensure that our investment management sector continues to be at the cutting edge of global markets in the face of rapid technological, economic, and societal change.

Last Budget I launched our Second Investment Management Strategy...

...and I'd like to thank the Economic Secretary, John Glen, and Chris Cummings, and other members of the Asset Management Taskforce for driving forward this work with pace. We said we needed to harness the UK's world-leading Fintech sector to support the asset management industry...

...and I was delighted that last week the Investment Association launched its

own Fintech Accelerator – Velocity...

...that will take the best ideas in the market and ensure they get the support and investment they need to scale up and succeed.

We said we needed to reach out to markets around the world and strengthen the UK's links to investors and asset managers...

...because if we are to achieve a truly Global Britain then we need to look to strengthening ties with the big, established markets, such as the US and Japan...

...and the fast-growing markets of the East – in India and China...

...who – as their middle classes grow in size and prosperity – will rapidly increase their demand for asset management.

And I announced at my Mansion House speech in June a new strategy for our global engagement on financial services...

...seeking to build a series of new Global Financial Partnerships with key markets...

...leveraging existing tools – such as our bilateral dialogues and regulatory cooperation...

...with new tools – such as the UK's future equivalence regime and Free Trade Agreements...

...which for the investment management sector means better access to markets around the world, lower costs of cross-border fund sales, and a bigger role for London as a global hub for asset management.

And we said we needed UK asset managers to be global leaders in the financial markets of the future...

...and I am therefore pleased that during Green Great Britain Week I can announce that the Government will launch a Strategy on Green Finance next year...

..building on the Green Finance Institute that I announced at Mansion House...

...and for those of you up early, the Economic Secretary will say more about this at the market opening of the LSE tomorrow morning.

Conclusion

I won't delay you from your dinner much longer...

...but I do want to finish with a story I heard the other day.

A fund manager and a priest die and go to heaven.

The fund manager is greeted by St Peter and is given a beautiful apartment,

with champagne fountains and glorious views across all of heaven.

The priest is greeted by St Peter and shown to his tiny inner room, with a small window overlooking a dusty courtyard and overflowing dustbins.

The priest complained to St Peter, "I don't understand, I've led a blameless life, in service to God, and this guy has spent his whole life in the service of money. How is this fair?".

St Peter replied, "look I know that – but we've got thousands of Priests in heaven, and he's our first fund manager".

On that note, I'll wrap up.

Britain is, and will remain, a great place to do business.

We are a global capital for financial services, investment management, and we're leading the world on developing Fourth Industrial Revolution technologies...

...and as Chancellor I am absolutely determined to go on pushing us to do even better.

Chris – I think you got it right in your recent FT interview when you described yourself as "a tenacious bugger"...

...well I am too.

I have spent the last two years on a path of unswerving commitment to a Brexit deal that protects jobs, investment, and growth;

To investing in the technologies and skills of the future;

And to working with all of you in this room to ensure that Britain remains the best place in the world for finance and investment management.

I remain committed to that cause...

...and I am convinced that we will succeed in delivering those goals for Britain.

Thank you.