

CABINET SECRETARY FOR ECONOMY, JOBS AND FAIR WORK

MEETING WITH ROYAL BANK OF CANADA (RBC) WEALTH MANAGEMENT

TUESDAY 17 OCTOBER 2017

What	<ul style="list-style-type: none">• Meeting with global industry leader and inward investor to understand the company's strategic plans, especially in relation to the UK and Europe.• To provide reassurance on Scotland's position following EU referendum.• Highlight strengths of Scotland's Financial Services, especially Asset Management and Servicing.• Explore how SG and SDI can support RBC's footprint in Scotland and identify potential for future growth.
Where	155 Wellington Street West, Toronto M5V 3K7
When	13:00-14:00
Key Message(s)	<ul style="list-style-type: none">• Acknowledge the importance of RBC's presence in Scotland.• Keen to develop a strategic relationship and identify possible opportunities for RBC to grow its footprint in Scotland.• The FBS industry is one of the key sectors within the Scottish Government Economic Strategy, identified as providing an opportunity to strengthen Scotland's areas of international comparative advantage and the capacity to boost productivity.• The Scottish Government fully recognise the key role that the financial services industry plays in the Scottish economy and is absolutely committed to supporting and working with the industry to strengthen our foothold in financial and business services (FBS).
Who	Terri-Lee Weeks, SVP Products and Strategy, Royal Bank of Canada (RBC) Wealth Management
Why	<ul style="list-style-type: none">• RBC is one of the world's largest banks. Meeting provides an opportunity to establish senior HQ level engagement with a view to identifying future support and growth opportunities.• To gain an understanding of the overall strategy for the wealth management division with a particular focus on UK and Europe.• To maintain confidence and underline Scotland's expertise within the financial services sector and continued commitment to support RBC to grow in Scotland.
Supporting officials	<ul style="list-style-type: none">• Raymond McGovern, SDI Americas Director, Mobile: +1 [Redacted 38(1)(b)]• Sharon Hamilton, SDI Head of Financial Services, Mobile: 07810 658 488
Briefing contents	Annex A – Summary Annex B – Biography Annex C – Company Background Annex D – FBS Sector Overview

SUMMARY

Purpose

- To provide RBC with a clear view of Scotland's strengths in financial services and SDI's interest to build a strong strategic relationship with RBC.
- To obtain a deeper understanding of RBC's international growth plans.
- To offer reassurance on Scotland's position in light of Brexit updates. To seek views on how Brexit might alter RBC's future strategy and understand potential implications for Scotland.

Key Facts

- Scotland is internationally recognised as the most important UK financial centre outside London and the South East. (**EY Attractiveness Survey 2017**).
- The sector typically delivers around **40%** of Scotland's annual FDI results.
- Scotland serves as the HQ for more than **18** financial services companies.
- Scotland's FBS sector employs approx **86,000**.
- Scotland's Asset Management sector employs close to **12,000** staff directly and manages close to **£1tn** (USD\$1.35tn) of assets from Scotland.
- **6** of the world's top **10** largest asset servicing firms have a presence in Scotland.
- The merger of **Standard Life** and **Aberdeen Asset Management** has created one of the world's largest asset managers HQ'd in Scotland.
- Scotland is reputed internationally for its education system – **19** Higher Education institutions in Scotland and **5** universities in **Top 200**. There are currently almost **232,600** students studying at universities in Scotland with **75,000+** of these students studying courses relevant to the financial services sector.

Lines to Take

- Scotland is an attractive and competitive location for a wide range of financial services activity. Outside of London and the South East, Scotland has the most complete Financial & Business Services industry cluster in the UK.
- Scotland's expertise in Asset Management and Servicing provides ideal location for RBC Wealth Management to grow its operations in the UK and Europe.
- SE/SDI keen to establish additional relationship with RBC in both London and Scotland.
- **Recognise contribution** of the financial services sector to Scottish economy and understand the **threat posed** to the sector by the UK's decision to leave the EU.
- The FBS sector is important to Scotland for its **direct contribution to our economy** and for the essential support it provides to consumers and businesses in all economic sectors.
- The creation of a new **London Hub** location is key to bringing Scotland closer to the City providing **vital links and continuous dialogue** with other FBS institutions and gaining key insights into their needs and concerns.
- The financial services sector is important to Scotland's economy and the Scottish Government is considering all possible steps to ensure Scotland's continuing relationship with the EU, including seeking an agreement that will ensure Scotland retains Single Market membership, even if the rest of the UK leaves.

BIOGRAPHY

TERRI-LEE WEEKS, SVP PRODUCTS & STRATEGY



Experienced Vice President in Business Strategy with a demonstrated history of working in the financial services industry.

Strong business development professional skilled in Portfolio Management, Strategic Planning, Business Process Improvement, Project Management Office (PMO), and Stakeholder Management.

Appointed to current role May 2017, having held a number of senior positions with RBC whom she joined in 2004. Previously consultant at Accenture.

Education includes a BSc (Hons) in Psychology from Queen's University (Canada) and a PhD in Psychology from Loughborough University (UK).

COMPANY BACKGROUND

The Royal Bank of Canada (RBC) is a Canadian multinational financial services company and the largest bank in Canada. The bank serves over **16 million** clients and has **78,000** employees (2016 est.) worldwide. The bank was founded in 1864 in Halifax, Nova Scotia. The bank reported revenue of CAD\$38.4bn (**£23.1bn**) and net income of CAD\$10.5bn (**£6.3bn**) in 2016. RBC is one of Canada's largest banks and one of the largest banks in the world, based on market capitalization. Q3 2017 revenue was CAD\$10bn (**£6.03bn**) (60% Canada, 23% US and 17% International).

RBC works under the following Business Segments (% revenue Q3 2017)

- **Personal & Commercial Banking (50%)**: Financial leader in Canada with a presence in the Caribbean and the U.S.
- **Capital Markets (22%)**: Premier North American investment bank with select global reach in Europe and Asia-Pacific.
- **Wealth Management (15%)**: Leading global wealth and asset manager. Assets under management of **C\$596bn (£359bn)** at 31 July 2017. **RBC Wealth Management** has provided trusted advice and wealth management solutions to individuals, families and institutions for more than a century. RBC serve the needs of high net worth and institutional clients worldwide through private banking, credit, investment management, asset management, estate and trust and other services.
- **Insurance (6%)**: Wide range of life, health, home, auto, travel and wealth accumulation solutions to individual and group clients across Canada and offer reinsurance solutions for clients globally.
- **Investor & Treasury Services (7%)**: Leading global asset servicer with an integrated client offering. Specialist provider of global custody, fund administration and asset servicing to institutional investors worldwide.

RBC in Scotland

- Presence in Edinburgh employing approx **50** staff focusing on corporate pension plans RBC Corporate Employee & Executive Services (RBC cees).
- RBC cees is a leading global specialist in employee benefit plan services and a part of RBC Wealth Management. It provides corporate trustee and administration services for over 1000 employee benefit plans for more than 475 corporate client groups around the world.
- RBC is not a SE account managed company. SDI has been working to build contacts with RBC since first meeting in 2014, and in April 2017 met with Carlos Pinto, Global Head of Corporate Development in London.
 - RBC currently has approx **3,500** employees in the UK.
 - Main focus is on Capital Market Investment and Wealth Management
 - They do not envisage extending into retail banking.
 - [Redacted under 33(1)(b)]

FINANCIAL SERVICES AND BREXIT OVERVIEW

- The financial services sector is important to Scotland, for its direct contribution to our economy and for the essential support it provides to consumers and businesses in all economic sectors. Continued uncertainty over the UK Government's negotiating position risks jobs and future investment in the financial services sector across the UK.
- Now that the UK Government has made clear its intention to leave the Single market it is essential that they set out how they intend to protect the financial services sector and Scotland in the forthcoming negotiations.
- The Scottish Government will explore differential options for Scotland and is considering all possible steps to ensure Scotland's continuing relationship with the EU, including seeking an agreement that will ensure Scotland retains Single Market membership, even if the rest of the UK leaves.

1. Economic Contribution

- GDP in the Financial Services sector¹ increased by 0.6 per cent in 2017 Q1 compared with the previous quarter. However, compared to Q1 2016 GDP in the sector increased by 0.3%.
- The Financial Services sector contributed £8.3 billion in Gross Value Added (GVA) to Scotland's economy in 2015, 6.5 per cent of total Scottish GVA. This was slightly lower than the UK overall (7.2 per cent) and significantly lower than London (16.3 per cent).
- Employment in Scotland's Financial Services sector was 86,200 in 2015 (3.4 per cent of total employment in Scotland).
- In 2015, international exports by the Scottish Financial Services sector² are estimated at £1.3 billion. Specifically, exports to the EU are estimated at £210 million and Non-EU exports at £1.1 billion. Exports to the rest of the UK are estimated at £7.6 billion.

Report by 4-consulting – ‘*Economic Impact of Leaving the European Union*’ – presented to Economy and Fair Work Committee on 2 November 2016 highlighted the importance of financial services:

“Edinburgh’s economy is more reliant on financial services than the London economy or any other UK city economy. Edinburgh’s share of financial services is markedly ahead of most large European cities.

“The latest available data from the Office for National Statistics (ONS) shows that financial services accounted for a higher share of Edinburgh’s national economy (23.8%) than London (18.9%) or any other city in the UK. This is measured by Gross Value Added (GVA) in 2014.

“Additional data published by Eurostat shows Edinburgh’s economy is more reliant on financial services than any other European city (for which data is available) apart from Luxembourg. (Eurostat data for some cities was only available for 2013)”

¹ GDP and employment data for the Financial Services sector are for SIC (2007) Section K – Financial and Insurance Activities.

² Exports figures relate to SIC (2007) Divisions 64-66.

2. Employment

4-consulting report estimates that 20,000 EU nationals work in the banking and finance sector in Scotland. We need assurance that the rights of these workers will be protected and that the financial sector in Scotland will continue to be able to attract talented workers from across the EU.

Financial Services Employment in Scotland by Sub-Sector

	2013	2014	2015
Banking	45,900	46,600	48,200
Life and Pensions	9,400	8,200	8,500
General Insurance	2,400	2,200	1,800
Asset Management	16,400	16,900	14,900
Intermediation	11,300	12,500	12,700

- The sector accounts for around 3.4% of total employment. Overall, Scotland's share of GB financial services employment was 8.4 per cent in 2015.
- Life and pensions employment has fallen over recent years but the industry retains significant footprint in Scotland with more than 26 per cent of GB employment located here.

3. Firms in Scotland

Institutions **headquartered in other parts of the UK** have substantial operations and customers in Scotland - for example **Barclays, HSBC** and **Santander**. In recent years **new entrants** to the UK banking sector, such as **Tesco Bank, Virgin Money** and **Sainsbury's Bank**, have all established a significant operational and headquarter presence in Scotland.

- **Asset management and servicing** - Six of the top ten asset servicing firms (in terms of worldwide assets under custody and administration) have operations in Scotland, including **BNY Mellon, JP Morgan** and **State Street**. **Aberdeen Asset Management, AEGON Asset Management UK, Alliance Trust, Baillie Gifford and Co, First State Investments, Scottish Widows Investment Partnership and Standard Life Investments** all have a significant presence in Scotland.
- Scottish Financial Enterprise estimate that the value of funds under management in Scotland is around **£800 billion**.
- **Life and pensions** - Over 25 per cent of GB employment in the life and pensions sector is located in Scotland in firms including **Standard Life, Scottish Widows, Aviva** and **Royal London**.
- **General insurance** - a mature market with a long-established reputation and wealth of experience. A number of firms that provide services across the UK have operations located here, including **Esure** and **Direct Line**.

4. Large firms dominate employment in the sector in Scotland

- The top ten financial services companies by employment account for two thirds of employment in the industry in Scotland. In the UK as a whole, the top ten companies account for 35 per cent of employment.

Country	Top 10 Financial Services Businesses Employment	All Financial Services Employment	Top 10 Share of All Employment
Scotland	58,510	88,510	66%
UK	364,740	1,037,650	35%

5. Foreign owned firms have a significant presence in the industry in Scotland.

- In 2015, foreign owned enterprises accounted for 6 per cent of the total number of enterprises in financial services (and 20 per cent of employment in the sector³).
- For the economy as a whole, the average level of foreign ownership of Scottish enterprises is 1 per cent and the average level of employment accounted for by these firms is 17 per cent⁴.

6. Exports

- The EU accounts for around 155 million of the **£8.6bn** exported by financial services in Scotland (1.8%), with the vast majority (**£7.4bn**) going to the rest of the UK.
- The UK financial services sector exports around 33 per cent of its financial, insurance and pension's services exports to the EU. Within this, non-insurance financial services export most intensively to the EU and account for the larger share of jobs in the broad sector.

BREXIT IMPLICATIONS

7. Access to EU market

- White Paper acknowledges strategic importance of the financial services sector and claims that the UK Government will “*be aiming for the freest possible trade in financial services between the UK and EU Member States.*”
- It is not yet clear what form such an agreement might take or what provisions will be made to allow transition to a new regulatory regime.
- Unless agreements on access are put in place, the UK would lose access to the full EU market for financial services through current passporting mechanism.
- Scottish based companies operating in EU markets would have to set up a base of operations in another European state to allow access to continue.
- Some companies (Redacted under 33(1)(b)) already have operations elsewhere in the EU that may allow them to continue to offer some services to the European market. (Redacted under 33(1)(b)) also currently hold operating licenses in Ireland, Netherlands and Germany).
- (Redacted 33(1)(b))
- **There are no real examples of trade agreements/deals on financial services outside of the EU.** This is mainly due to the importance of financial services to the national economy and therefore subject to regulation “prudentialism” to protect national economies from the failure of financial services

City UK has called for the UK and EU to agree:

³ Businesses in Scotland 2013. “Foreign owned” is defined as outside the United Kingdom.

⁴ Foreign owned firms are those enterprises with ultimate ownership outside the UK. The country of ownership is based on where the enterprise is ultimately registered (i.e. where the parent company is incorporated).

- A framework for the mutual recognition of regulatory regimes, going beyond the existing equivalence regimes.
- Continued close cooperation between the FCA/PRA, the European Supervisory Authorities and Member States' competent authorities, as well as the Bank of England and the ECB.
- The ability to market and provide agreed services to existing and new customers, transact business with them, and manage their money efficiently.
- Acceptance of professional qualifications, practice rights, standards for regulated products and services and especially prudential regulation set by the relevant regimes.
- Non-discriminatory access to market infrastructure and free cross-border data flows.

8. Transition Agreement

Redacted under 33(1)(b)

9. Current arrangements - Passporting

Financial services is an area that has benefitted significantly from harmonization, mutual recognition and the ability to provide cross border services. The system of "passporting" has enabled financial institutions to reduce or to avoid substantial costs associated with operating local subsidiaries by instead converting these into passported branches of an entity registered in another EU country. Currently, banks and investment companies authorized in an EEA state are entitled to provide services to clients in other EEA states by exercising the right of establishment via a branch or to provide services across borders, without further authorisation requirements.

The passporting regime covers services including deposit taking and lending, insurance (life and non-life), reinsurance, investment services management and offering of Undertakings for Collective Investments in Transferrable Securities (UCITS), alternative investment funds, payment services and electronic money.

It is likely that cross-border banking; investment banking and foreign exchange activities would be most affected by the loss of passporting:

[Redacted 33(1)(b)]

10. This would translate into an increase in non-tariff barriers

Redacted 33(1)(b)

ALTERNATIVE OPTIONS

11. EEA membership ("Norwegian model")

Passporting does not require full EU membership. Membership of the EEA would allow Scotland to continue to benefit from access to the EU's single market, but with

reduced influence on development of regulation. However, EU leaders have been clear that retention of passporting capability requires acceptance of EU rules and requirements.

- The UK White Paper appears to rule out this option 8.2 “We do not seek to adopt a model already enjoyed by other countries.”
- The Scottish Government has put forward a solution under which Scotland should continue to be a member of the European Economic Area, even if the UK leaves. Such a differentiated approach would allow Scotland to continue as a member of the European Single Market in addition to – not instead of – free trade across the UK. This approach will require UK cooperation and should form part of the UK Government’s Article 50 process.
- The proposed integrated solution for Scotland ensures continued membership of the Single Market, and collaboration with EU partners on key aspects of policy and participation in EU programmes.
- As part of the proposal Scotland will remain part of the UK single market – goods and services will still be able to move freely across the UK. As such, the external UK border will still be the current UK border with the EU.

12. Equivalence

It is possible for ‘third countries’ outside of the EU single market to obtain access to the single market for some financial activities through a mechanism known as ‘equivalency’ – provisions have been made to offer market access to companies based in **countries that can demonstrate that their financial regulation matches the standards set by Europe.**

- Equivalence does not cover all areas of financial services and any agreement may be subject to extra conditions.
- There could be issues with delays around being granted equivalence.
- Equivalence is determined by the European Commission and can be revoked unilaterally by the EC at any time, particularly if a home country deviates from EU standards.

CONCLUSIONS

Redacted under section 30(b)(i) and (ii) and section 33(1)(b)

(Redacted under 38(1)(b))