

Simon Case and Brendan Threlfall Meeting: NI Services Sector

Objectives

- Ensuring UKG is aware of the importance of services sector to the economy.
- More detail on the risks and opportunities from an independent trade policy for the local services sector.

Speaking points

- To date, discussions around NI have focussed on the impacts of a land border on the movement of goods on the island of Ireland. However, the implications of EU exit on the local services sector cannot be overlooked.

Non-financial services

- The primary market for the external sales of non-financial services is GB (£3.1bn of £4.7bn) in 2015, with a further £1bn into Ireland and the EU26.
- 6,290 businesses were involved in external sales in 2015 - 67% of those are micro businesses employing less than 10 people and 95% employ less than 50.

Financial services

- The total sale of financial services to external markets totalled £1bn in 2015.
- Northern Ireland is positioned as an ideal near shore centre for activities within the financial services sector, including financial services software development, infrastructure support, fund administration, operations (reconciliation, settlement, clearing etc.), analytics and risk management.

FDI attractiveness

- There are over 500 European owned businesses in NI, employing over 40,000 people. NI has had particular success in attracting operations from both the UK and the US, and many of the European businesses are Irish.
- It is important to view the risks and opportunities from Brexit through the lens of Northern Ireland's attractiveness for foreign investment and our competitiveness on the island of Ireland.

Engaging with Whitehall

- We need to determine the proportion of services sales to GB are reliant on UK providers having 'passportable rights', and the risk this poses to NI's competitiveness on the island of Ireland.
- We would welcome UKG participation to ensure the key findings shape UKG thinking.
- We would also welcome early engagement on the opportunities from an independent trade policy which could be particularly valuable for our services sector.

Background

NI Services Sector

- The services sector is an important, and growing, part of the NI economy. Figures for 2015 indicate that the service sector contributed 75% of total GVA (£25.9bn of the £34.4bn total).
- The sector accounts for over 80% of all employee jobs in Northern Ireland, standing at 609,050 jobs in March 2017. Furthermore, the services sector has also accounted for the vast majority (77.2%) of the increase in jobs since the downturn and recent low point in jobs at December 2011.
- External sales of 'tradable services' make up a significant part of this picture. The vast majority of external sales of non-financial services were to GB (£3.1bn of £4.7bn) in 2015, with a further £1bn into Ireland and the EU26. The total sale of financial services to external markets totalled £1bn in 2015.

Non-financial services

- In 2015, 6,290 businesses in Northern Ireland were involved in external sales of services. The vast majority of businesses (95%) involved in external sales employ less than 50 people, and 67% (4,191 businesses) are microbusinesses employing less than 10 people.
- The primary market for the external sales of non-financial services in all business sizes (0-9, 10-49, 50-249 and 250+ employees) was GB, with IE being the second most important market in 2015.
- Micro businesses account for a disproportionate share of the total number of businesses exporting to all markets. Looking specifically at the most important markets of GB and Ireland, only 7% and 5% of micro-businesses in NI export to GB and IE respectively; however, they account for over half (66% and 57%) the number of business trading in these markets.
- Small businesses represent the largest proportion of non-financial services sales to IE (35%) and EU26 (30%).
- Large businesses dominate the share, by value, of non-financial services sales to the RoW market (61%), and account for the largest share of sales with GB (32%). The number of large businesses involved in external sales of non-financial services is more balanced across the markets (45 to GB; 43 to IE; 24 to REU; 28 to ROW). External trade with the GB and ROW markets generated significantly more value than trade with the IE and REU markets.

- The largest proportion of external sales of services was from the Services sector which made up 62% (£2.9bn) of all external sales of services. The next largest sector for external sales of services was the Construction sector with 29% (£1.3bn), followed by the Manufacturing sector with 9% of external sales of services in 2015. The Other Production & Agriculture sector represented just 1% (£35m) of external sales of services in 2015.

Financial Services

- Northern Ireland is positioned as an ideal near shore center for activities within the financial services sector including financial services software development, infrastructure support, fund administration, operations (reconciliation, settlement, clearing etc.), analytics and risk management. The total sale of financial services to external markets totalled £1bn in 2015.
- Over the past decade, Northern Ireland has developed a strong track record as a cost competitive, high quality location for international financial services companies. The sector comprises three main activities:
 - Banking – retail, business, investment.
 - Trading technologies – exchanges, buy-side, brokerages.
 - Insurance – life and pensions, general, health and protection.
- Northern Ireland has had particular success in attracting operations from both the UK and the US providing support functions to many of the major financial services companies. Over the last five years, Invest Northern Ireland has supported almost 40 externally owned financial services investments, promoting more than 4000 jobs.

Key challenges

- Trade in services is different to, and more complicated than, trade in goods. The sector's exposure to non-tariff barriers is the primary difference. However, trade frictions in goods and services are related i.e. frictions at borders for the movement of goods can impact on the ability of businesses to offer services related to these goods, such as maintenance and repairs.
- Key issues for the sector will include:
 - **Passporting rights and other tariff/non-tariff barriers** – the local financial services sector is directly affected by the rest of the UK's (particularly London's) ability to provide services across the EU. Maintaining market access via passporting rights is therefore important for this sector in Northern Ireland to ensure that operations remain within the UK.
 - **Regulatory symmetry** – it will be important to ensure that regulatory or related changes continue to be business friendly, albeit a number of firms already comply with a range of frameworks and rules used by individual countries as well as meeting EU requirements.

- **Ease of Movement (workforce and travel)** – Maintaining and expanding movement of necessary specialist skills into Northern Ireland is considered important to meet skills needs to drive future success. In addition, potential visa and other restrictions on individual travel will need to be avoided to maintain services to clients.
 - **Capitalising on global trade opportunities** - Realising the opportunities from an independent UK trade policy, and ensuring NI service providers have the ability to orientate themselves to RoW markets, will be important
- While NI businesses will retain certain advantages, e.g. English speaking and geographic location between American and Eastern markets, divergence from the ‘level playing field’ standards and regulations is likely to increase non-tariff barriers in trade with the EU. Research estimates that a 1% increase in the ‘restrictiveness’ of the services sector reduces exports by around 2.5% and reduces imports by around 2%.¹

¹ [Leaving the EU: An Assessment of its Impact on Services and Trade, London First, June 2016](#)