LABOR MARKET BRIEFINGS SERIES

LABOR MARKET INFORMATION FOR RESEARCHERS

THE FINANCE SECTOR IN EUROPE
As part of the Labor Market Briefings Series, this report will give an overview of the financial sector specifically in Europe and how European researchers can begin making their career in the sector. While providing a general overview of the financial sector, this report will focus on the financial sector in three European countries, Liechtenstein, Luxembourg, and the UK, as all three countries boast significant Financial sectors. It should be noted that is this is a general overview of the financial sector and does not seek to give specific information, rather a glimpse of the sector.

**WHAT?**

- The finance sector is integral to the European economy as it is involved in almost every other economic sector on the continent.
- 46% of assets in the sector are held by Monetary Financial Institutions.
- The sector is worth 68.5 trillion.

**The Financial sector is the largest single economic sector in the country and accounts for 12% of GDP.**

- **U.K.**
  - A Financial powerhouse, the finance sector in Liechtenstein employs 16% of the population.

- **Liechtenstein**
  - The financial sector currently accounts for a full 36% of Luxembourg’s GDP.

- **Luxembourg**

**Researchers in the Sector**

- **Occupations:** most researchers work as industry-specific equity research associates, or as quantitative analysts.

- **Research fields:** mathematics, science, engineering, economics, and finance.

- **Skills:** complex problems solving, creativity, analytical, work under pressure, flexibility, communication, independence.
The financial sector is one of the most important European economic sectors. The financial sector has its fingers in the pie, so to speak, as it is involved in almost every other economic sector. The EU’s financial sector is a global powerhouse, in 2015 it’s accrued assets stood at €68.5tl. The financial sector serves not only as an economic sector but also helps to promote and facilitate economic activity across the continent.

The Financial Sector is comprised of four types of financial institutions which are MFIs (Monetary Financial Institutions), MMFs (Money Market Funds), ICPFsh (Insurance Corporations and Pension Funds), and OFIs (Other Financial Institutions). Within Europe, Monetary Financial Institutions control the lion’s share of the Finance sector’s assets, with 46% of the total in 2015. Other Financial Institutions (OFIs) came in a close second with 39% of the total in the same year. The rest was shared by MMFs and ICPFs.

The European Financial Sector’s struggles during the Eurozone crisis in 2008 are well documented and have been highly scrutinized. Since the crisis, ICPFs, MMFs, and OFIs have been on the rise steadily increasing their valuations as well as net inflows. The OFI sub-sector has increased its total share of the financial sector’s assets by ten percent since the crisis. Investment funding in Europe has gone through the roof more than doubling since the crisis in 2008. It is not only investments that have grown but the entire rest of the sector has increased by 25% since 2008. Despite the strong growth in the European financial sector since the crisis, credit institutions have been declining, losing 12% of their total assets.

When looking at the disparities within the European Financial sector there exist significant differences in the size and structures of each European nation’s financial sector.
As mentioned previously, there exists significant disparity between the Financial sector across European countries. This has resulted from differing National Financial regulations, prominence of Financial Institutions, and access to Capital and Financial resources. Three countries that have exceedingly strong Financial sectors are Liechtenstein, Luxembourg, and the UK.

**Liechtenstein**

Liechtenstein is a tiny European country located in between Austria and Switzerland. While it is not a member of the EU, as it is too small, it has significant trade deals in place maintaining FTAs with both the EEA and the EU. Despite its small size Liechtenstein is a significant player on the global financial scene, out of a total population of 36,680, 5,000 Liechtenstein citizens work in the financial sector accounting for 16% of the population. This makes Finance the second largest sector of employment in Liechtenstein after the Industrial Sector. It is the relatively small size of the Financial Sector in Liechtenstein that allows for effective regulation. Liechtenstein withstood much of the uncertainty and upheaval that was prevalent throughout Europe in the Financial crisis of 2008. The Liechtenstein Financial Market Authority regulates the Financial sector with an iron fist allowing Liechtenstein’s Financial sector to remain insulated against negligent financial practices and global uncertainty.

When examining the Financial statistics of Liechtenstein’s financial sector, one can begin to understand how significant it is. In 2016 Liechtenstein’s banks managed CHF 234.8bl in assets and took home CHF 390.3ml before tax. In the same year, asset management companies managed CHF 35.1bl in assets. Investment funds CHF 46 billion, Insurance related firms CHF 26.7bl, and Pension Funds CHF 5.49bl. For a country with just over 36,680 citizens, this is quite significant.

In 2014, the Liechtenstein financial sector generated gross value added of CHF 1.489bl. Meaning that every fourth franc of value added in Liechtenstein was generated in the financial sector.

The success of Liechtenstein’s financial sector can be attributed to factors which include Liechtenstein’s membership in two economic areas (the European Economic Area and the Swiss economic area), a liberal economic order, efficient authorities and supervision, and a high degree of legal certainty. The tax and legal framework is ideal for entrepreneurship and meets international standards.

**Luxembourg**

Luxembourg started out as a Euroloan center catering to all of Europe. Beginning in the 1980s Luxembourg, more specifically Luxembourg city, began to develop as a global center for investment funds. Much like Liechtenstein the mix of its geographic location, social and political makeup, and strong regulation have led it to become a global financial center. While a tiny country Luxembourg is renowned internationally as it is the richest per-capita country in the world. Luxembourg known by the locals as the Grand Duchy is the foremost center for private banking in Europe, the second most important center globally for investment funds, and the main captive reinsurance market in the European Union. The financial sector currently accounts for 36% of GDP. In 2013, 44,000 people were employed in the financial sector, corresponding to 12% of Luxembourg’s labor force, these numbers have only been on the rise.

Luxembourg was one of the few European countries to emerge unscathed from the Financial Crisis of 2008. Though it was not hit hard by the crisis it did sustain some growth and contraction cycles in the aftermath of the crisis.
In addition, unemployment in Luxembourg has been on an up and down trend yet it seems to be ending with a trend of a sustained decrease in unemployment the prediction for the near future. During the crisis, Luxembourg's Financial sector was heavily involved in floating some of Europe’s failing banks. Luxembourg's credit sector a sub-sector of the Financial sector has been experiencing growth in recent years, an anomaly for Europe since the financial crisis. Additionally, Luxembourg's Financial sector is highly visible due to a large number of International Banks operating through Luxembourg. The three strongest subsectors of Luxembourg’s financial sector are Investment Funds, Insurance Businesses, and Banking. Investment flows to and from the Grand Duchy are massive as it is the second largest Investment center in the world after the United States. In 2017, the Investment subsector stood at over €3,860,317bl of net assets under management.

The U.K.
As the second largest economy in Europe and the fifth largest in the world, the U.K. economy is impressive. The U.K. financial sector is the largest and strongest single economic sector in the country. In terms of size, the UK financial sector is massive processing £75tl worth of payments annually, which is roughly 40 times the value of U.K. GDP. Similarly, UK bank balances are the largest in the world, where they are 4.5 times larger than UK national income. The UK's leading position in financial services has clear benefits. The Finance sector accounts for nearly 12 percent of the UK's GDP, and while contributing £72bl to the U.K.'s BOT. The sector employs 2.2 million workers in the UK which accounts for over 7% of the labor force. The majority of UK finance jobs are located in, the Southern half of England, Edinburgh, Belfast, and Cardiff.

The U.K. is the leading exporter of financial services globally. Its trade surplus in financial services is double that of the next largest trade surpluses which are Luxembourg, Switzerland and the US. The U.K.'s major trading partners include the US, EU members, and other advanced economies such as Switzerland, Japan, Australia and Canada. These are followed by emerging markets such as Russia, Saudi Arabia, South Africa and Turkey, as well as international financial centers such as Hong Kong and Singapore. The main four main Financial sub-sectors of the UK Financial sector are Investment, Lending, General Insurance, and Financial Support Services. With Investment dominating the services provided by the U.K. financial sector.

While globally dominant and extremely lucrative there are many questions surrounding the U.K.'s financial sector. In 2008, the U.K. financial sector was the hardest hit due to its prominent role as the Financial gateway to Europe and lax governmental regulation. While being on the mend in recent years, many questions surround the sector. With many experts unsure if the Financial sector will be as dominant in the post-Brexit U.K. as it was before. Lastly, the rise of developing countries and their access to the financial market is eating away at Western Financial dominance which has meant the diminishing of the global role of the U.K. financial sector. Whether the U.K. financial sector will remain as the most dominate globally is yet to be seen.
Enterprises in the Finance sector consist for the most part of large and well-funded companies, some of which are Multinationals with local branches in many countries. This does not mean that all Financial enterprises in Europe are large companies. There exists a proliferation of Financial SMEs in the Financial sector which often work in close tandem with the larger companies. It is not uncommon to see Financial SMEs using the services of large Banks to pass on niche services to consumers. As such, the European Financial sector can be characterized as being polarized between large international Financial Institutions and SMEs, who together meet the needs of the European financial sector.

Here are some examples of major financial enterprises in the countries examined above:

**Liechtenstein**
Allgemeines Treuunternehmen (ATU), LGT Group, and VP Bank AG.

**Luxembourg**
BGL BNP Paribas, Deutsche Bank Luxembourg, and BCEE Luxembourg.

**UK**
HSBC, Barclays, and Lloyds.

As the European Financial sector continues to rebound after the financial crisis of 2008. Salaries and employment opportunities have continued to rise, with the rate of new employment and average salary being some of the highest of any sector in Europe.
The employment of Ph.D. holders in the financial sector is uncommon outside of academia. Yet, finance Ph.D. holders and employment opportunities for Ph.D. holders do exist in the sector. They can be found specifically in investment banks, hedge funds, private equity firms, risk management firms, and consulting firms. Entering the finance sector with a Ph.D. will lead most likely to two areas of employment: an industry-specific equity research associate, or a quantitative analyst (otherwise known as a "quant"). Equity research associates usually cover a specific industry, (such as biotechnology, energy, software, communication, etc.), so the most attractive candidates for these positions tend to be those who have their Ph.D. in a discipline related to the industry to be covered. Quants, on the other hand, are more sought-after for their raw mathematical and computer programming power. These positions are extremely valuable to the enterprises for which they are employed as their work is highly specialized and as such these positions tend to be well compensated. The downside is that these positions are limited, with most of such positions being found in large banks or firms. Many of these large banks and firms have understandings with academic institutions in which a certain percentage of the graduates in a certain Ph.D. field, often finance, find direct employment in the bank or firm. Oftentimes, the bank or firm sponsors the studies of Ph.D. candidates with the understanding that the candidate will find employment in the firm or bank upon completion of his or her studies.

Employers in the finance sector seek Ph.D. candidates with specialist quantitative and statistical training, and strong economic and numerical skills. They typically recruit researchers from mathematics, science, engineering, economics, and finance.

In terms of skills, employers seek candidates that can solve complex problems and find creative solutions. In addition to being able to analyze and synthesize large amounts of information and data, work under pressure and meet deadlines, cope with unexpected results and find new ways to move forward, communicate complex information to a range of audiences, and the ability to work independently with minimal supervision. While not overflowing with employment opportunities for Ph.D. holders the finance sector can still be a significant career choice for recent graduates. Graduates with analytical, statistical, and quantitative backgrounds are valued extremely highly. Respected and well-paid positions can be found for Ph.D. holders in the sector if you know where to look.
The Finance sector is one of the most important and visible sectors in the European economy. While experiencing a massive slowdown in 2008 and the following years the European Financial sector has been rebounding. While not in the same world-leading position as it used to be, the European Financial sector still retains a prominent global position. Employment opportunities and salaries have been on the rise, especially in Financial sectors such as Liechtenstein, Luxembourg, and the U.K. These three countries remain major arteries for Financial activity on the European continent as well as globally. Recent graduates seeking careers in this prominent economic sector can be buoyed by the fact that significant employment can be found. While roles are limited they can be found especially by those with the necessary skills and expertise.

Other useful sources of information and links

The European Central Bank’s Report on Financial Structures-

About Liechtenstein’s Financial Sector 2017-

About Luxembourg’s Financial Sector-

About the UK’s Financial Sector-

UK Salary guide for Potential Finance Sector Employees-
https://www.roberthalf.co.uk/salary-guide/financial-services

PhD Career Guide- Finance-
http://www.phdcareerguide.com/finance.html