



## FINANCIAL SERVICES SECTOR FEARS UK GROWTH WILL LAG BEHIND G7 AS BREXIT EFFECT TAKES HOLD

### Lloyds Bank Commercial Banking, Financial Institutions Sentiment Survey 2018:

- UK economic growth will be weaker in 2018 than in all other G7 nations, according to top financial services firms; sharp fall in optimism since last year
- Nevertheless most firms in the sector – the largest in the UK and a crucial bellwether of economic prospects – expect the economy to remain resilient this year
- Brexit is seen as by far the biggest risk for the year ahead; with one year to go until the UK leaves the EU, cross border access tops the list of specific worries
- Overwhelming majority of firms across the sector believe that the UK will remain most prominent European financial services hub
- Sector remains upbeat about its own growth prospects – individual firms expect revenues and other critical measures to rise this year
- Firms remain concerned about regulation, but say that implementing current rules is more of a challenge than complying with new regulation

The UK's economic growth will be outpaced by all other G7 advanced nations this year - and Brexit remains the single biggest risk on the horizon - according to a new report from Lloyds Bank Commercial Banking, canvassing the views of the world's biggest financial services firms.

The **Financial Institutions Sentiment Survey**, now in its third year, canvassed the views of over 100 boardroom and senior executives across a broad spectrum of institutions - including global banks, asset managers, insurers and private equity - on their opinions about the UK economy, business risks, regulatory pressures, technological change and cyber-risks.

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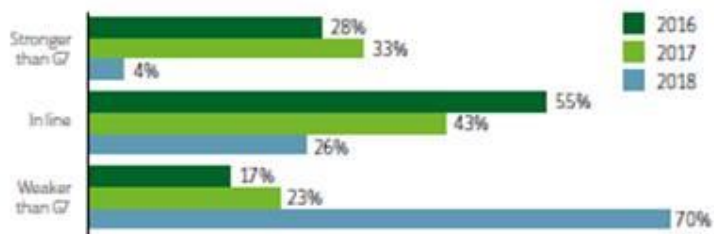


### Slowing growth – slipping to the back of the G7 pack

The report shows that firms across the sector are concerned about prospects for the UK economy over the coming year, in particular when compared to the outlook for other G7 nations, although on balance most firms expect the economy to remain resilient overall.

Almost three quarters (70%) of firms across the sector say they worry that UK economic growth will be weaker this year than in any of the other G7 nations – a dramatic worsening of sentiment compared to 2017 when just under a quarter of respondents (23%) held that view.

How do you expect UK economic growth to compare with other G7 countries?



Half of the firms surveyed (48%) say they expect UK growth to stay at 2017 levels, while a third (29%) expect it to worsen and a fifth (23%) believe growth will improve.

Robina Barker Bennett, Managing Director, Head of Financial Institutions, Lloyds Bank Commercial Banking, said: “As the biggest industry in the UK, the financial services sector is a crucial bellwether for the nation’s economic prospects. Fears about Brexit are looming large as the final countdown begins to March 2019, but our survey suggests that the UK economy will prove to be resilient and that it will come through the challenges of the next few months relatively unscathed. There is, however, a real risk that our growth will be slower this year than in all other advanced nations; and that we will fall to the back of the G7 pack.”

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### **Risks for the year ahead – the Brexit Effect**

The risk weighing most heavily on the minds of financial services firms is Brexit. More than half the firms surveyed (55%) say that they are worried about the effects of leaving the EU, with a quarter (28%) stating it is the most significant risk they are facing over the coming year. A quarter (24%) say they are now less optimistic about Brexit than they were 12 months ago, while two thirds (62%) say their opinion has not changed.

The issue that appears to be the biggest worry for the sector in relation to Brexit is cross border access. Almost half the respondents\* (48%) say this is the aspect of the UK's exit from the EU that would cause them the most concern if not agreed during 2018; while a quarter (25%) highlight regulation and regulatory equivalence, and one in ten (10%) mention worries about a UK-EU trade deal.

Other risks, in addition to Brexit, that respondents are concerned about for the coming 12 months include:

- Economic uncertainty (35%)
- Regulatory implementation (31%)
- Market volatility (24%)
- Threats of new regulation (23%)
- Weaker demand (24%)
- Geopolitical uncertainty (18%)
- Cyber threats (17%)

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### **Regulation – on the right track**

Although both regulatory implementation and the threat of new regulation are both key risks on the minds of decision makers across the financial services sector, most firms are content with the appropriateness of regulation so far. The number of firms that disagree remains relatively low.

Only a third (32%) say that the capital regulation has gone too far, falling from 42% in the 2017 survey, while just a quarter (24%) believe that the competition agenda has gone further than necessary, falling from 42% last year. This shift in sentiment follows the changes to the Basel III rules last December.

Reflecting on the regulatory climate of the past year, more than half (58%) of the firms in the survey say that it is the volume of regulation they have had to implement that has had the biggest impact; while only a fifth (20%) feel that complying with new regulation has been an issue.

### **Sectors' own prospects for 2018**

Firms across the sector remain relatively upbeat about their own prospects for the coming year. Two thirds (64%) expect revenues to increase this year, and most expect costs (76%), UK headcount (58%) and business investment in the UK (54%) to remain stable.

By far the biggest strategic priority for the sector, ranked as the number one aim for almost half (48%) of all firms interviewed, is organic growth, but other key aims for the year ahead include acquisition of new clients (35%); expansion within core markets (28%); and introducing new products and services (24%).

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### **UK's future as a financial services hub – sector wants to stay put**

Despite clear worries about the risks of Brexit, the survey shows that the vast majority of global financial services firms (88%) believe the UK will remain the most prominent hub for financial services, once the UK leaves the EU.

Most firms (54%) say they are not thinking about moving any of their operations, but a quarter (26%) are considering a move - an increase from 18% in 2017 and 13% in 2016. Nevertheless most of the firms that plan to relocate (57%) do not intend to shift more than 10% of their operations. One fifth (20%) remain undecided.

Robina Barker Bennet added: “The headwinds of economic and geopolitical uncertainty, regulatory pressures, and cyber threats mean choppy waters for the sector in the months ahead.

“With one year to go until the UK leaves the EU, it is no surprise that Brexit is seen as the biggest risk on the horizon. But despite the worries about growth prospects; the lack of clarity about the final deal; and the speculation about the future of the financial services industry, the sector is upbeat about its growth prospects and long term future. There is an unmistakable confidence that the UK will hold on to its position as the single most important hub for financial services in Europe.”

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#### **Notes to Editors**

- The Financial Institutions Sentiment Survey is available to download [here](#).
- \*These findings are based on responses from 40 of the firms in the wider sample – who provided verbatim feedback.
- The survey is based on responses from a sample of 107 c-suite and senior leaders (CEOs, CFOs, MDs, FDs, COOs, CIOs) from among Lloyds Bank's Commercial Banking's Financial Institutions client coverage division, covering a broad spectrum of institutions including multinational banks, insurers, challengers banks and asset managers.
- G7 countries are Canada, France, Germany, Italy, Japan, UK and USA.

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