

CORPORATE & INSTITUTIONAL

Financial Institutions Sentiment Survey 2024



LLOYDS BANK



Executive summary



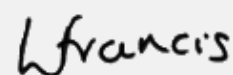
Welcome to the ninth annual Lloyds Bank Financial Institutions Sentiment Survey, where we gather insights from over 100 senior decision-makers at banks, insurers, financial sponsors, and asset and wealth managers.

This year marks a pivotal shift, reflecting a newfound optimism across the UK financial services sector and the broader economy. As inflation eases, global growth holds firm and a gradual monetary policy easing cycle is expected, the industry's outlook is significantly more positive.

However, this buoyant sentiment is tempered by long-standing pressure points and tail risk scenarios. Geopolitical uncertainty is heightened, while in the UK the new Labour government is seeking a new economic model to boost growth and living standards. The industry's resilience will be tested, but firms are proactively investing in transformative technologies like AI to drive innovation and sustainable expansion.

The UK – led by the global hub of London – retains its preeminence in financial services. The sector's hallmarks of enterprise, creativity and integrity position it to capitalise on emerging opportunities. As we look ahead, the possibilities for growth and advancement are clear.

This report highlights the diverse landscape facing financial institutions in the coming years. It serves as a clarion call to embrace the possibilities of this new era through continued innovation and prudent risk management.

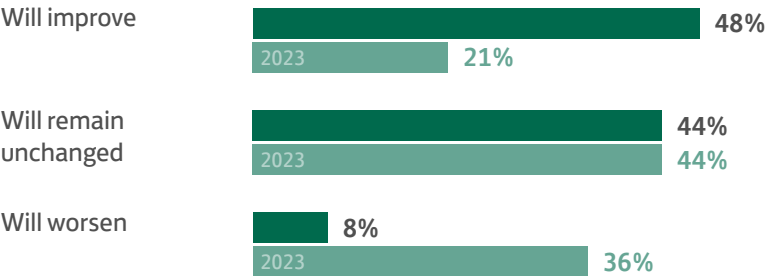
A handwritten signature in black ink that reads "L Francis".

Lisa Francis, Managing Director,
Head of Institutional Coverage,
Lloyds Bank

Results at a glance

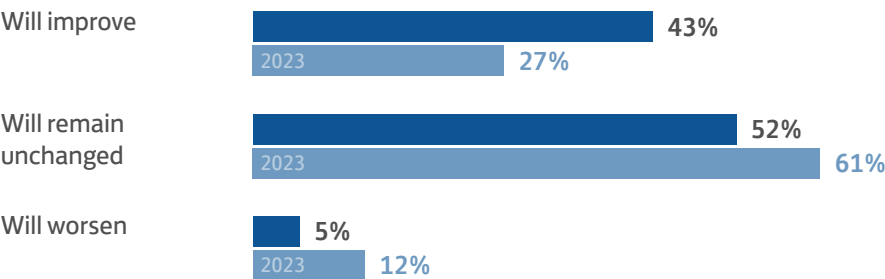
The economy

Growth in the UK economy over the next 12 months



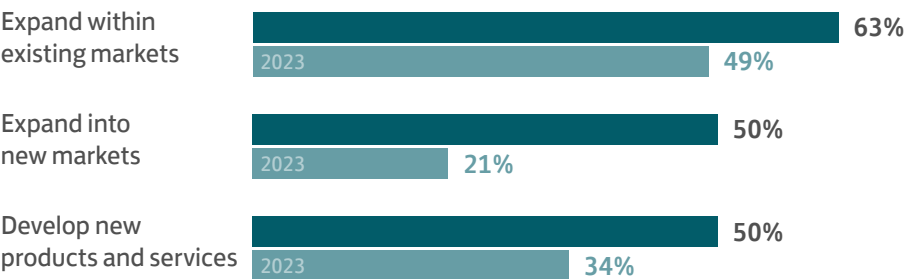
Financial services sector

Growth in the UK financial services sector over the next 12 months

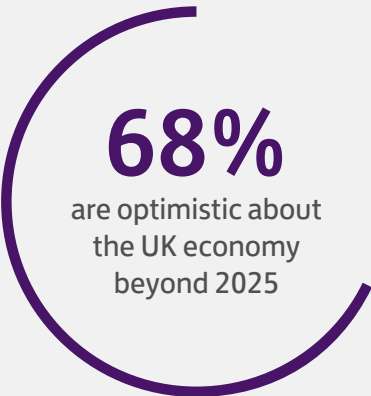


Growth ambitions

To support their growth ambitions, businesses are planning to



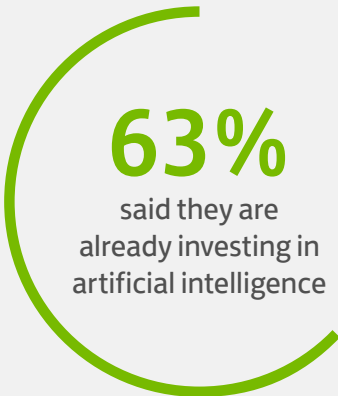
Long-term optimism



Global status



Investment in AI



A positive outlook for the UK economy



The main opportunities for the UK's economy in the year ahead:

An increasingly more positive economy (after two years of high inflation and higher interest rates):



An increase in investment post-election:



Greater disposable income for consumers:



This year's survey of financial institutions reveals a marked shift in sentiment towards the UK economy compared to 12 months ago. Respondents express noticeably more positive views on both short-term and long-term economic prospects.

In a striking contrast to previous years, nearly half (48%) of the surveyed institutions believe that UK economic growth will improve over the next 12 months. This figure is more than double the 21% who held such expectations in 2023 and represents a significant increase from 2022, when only 7% anticipated improvements in growth.

The data reflects a welcome decline in pessimism, with only 8% of respondents expecting the economy to worsen over the coming year. This figure stands in stark contrast to the 36% who harboured such concerns in 2023 and the 70% who shared this view in 2022.

This optimistic outlook aligns with the most recent quarterly GDP data¹, which showed 0.7% growth in Q1, with another strong outturn anticipated in Q2. Notably, the level of optimism extends beyond a 12-month horizon, with two-thirds (68%) of surveyed institutions expressing greater confidence in the UK economy beyond 2025.

The primary drivers of this renewed optimism are the easing of inflation and the view that interest rates have peaked (62%). At the time of writing, annual CPI inflation² has returned to the Bank of England's 2% target for the first time since 2021, although concerns linger for how long this will remain the case given the continuing strength of wage growth and services inflation. Respondents also view a potential increase in investment post-election as one of the main opportunities for the UK economy over the next 12 months (25%).

However, the report highlights several persistent concerns. Three-fifths (62%) of respondents express apprehension about geopolitical uncertainty, a significant increase from 22% in 2023. Additionally, 41% acknowledge the productivity challenges facing the UK, while a third (34%) of financial institutions identify global trade barriers as a key obstacle to the UK's economic performance over the next 12 months.

Overall this year's survey signals a significant turnaround in confidence among financial institutions regarding the UK's economic prospects, signalling potential brighter times ahead.



Improving growth alongside continued progress on lowering inflation has improved UK household and business confidence. The financial services sector, as a bellwether of the economy, reflects this shift in optimism.



Jeavon Lolay,
Head of Market Insights,
Lloyds Bank

¹ ONS GDP first quarterly estimate: January to March 2024

² ONS consumer price inflation, UK: May 2024

Optimism for the financial services sector

43%

of respondents believe
that financial services
sector growth will
improve over the
next 12 months

The financial services industry in the UK is witnessing an increase in optimism, with a significant portion of respondents anticipating improved growth prospects.

According to the survey, 43% of respondents believe that financial services sector growth will improve over the next 12 months, a substantial increase from 27% in 2023 and 12% in 2022. Only 5% expect growth in the sector to worsen, while 52% anticipate it to remain unchanged year-on-year.

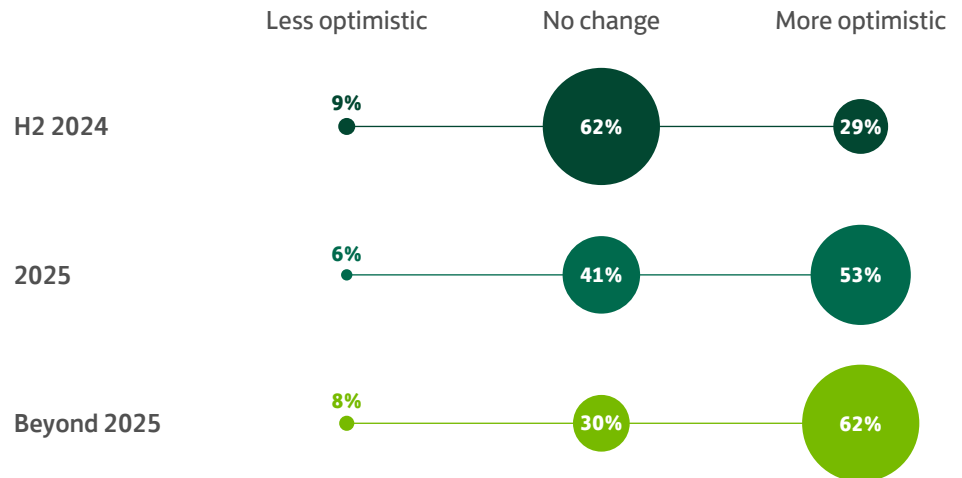
Looking beyond 2025, the majority (62%) express optimism about the growth prospects of the financial services sector in the UK. This conviction is also reflected in business confidence, with the majority of financial institutions (59%) reporting improved expectations for business growth over the next 12 months, while 39% remain unchanged, and only 2% indicate worsening expectations.

To drive these growth ambitions, financial institutions are primarily focusing on expanding in existing markets (63%) and new markets (50%), as well as developing new products and services (50%).

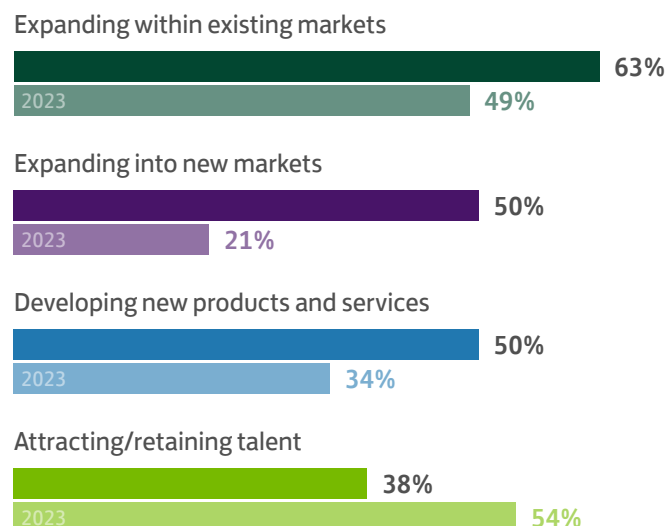
However, to further increase investments in their UK operations over the next 12 months, financial institutions cite several external factors that need to be addressed. Improved relationships between the UK and the European Union (51%), less restrictive legislation in the UK (39%), greater political certainty (36%), and falling interest rates in the UK (30%) are among the key factors mentioned.

A snapshot of the outlook for financial services

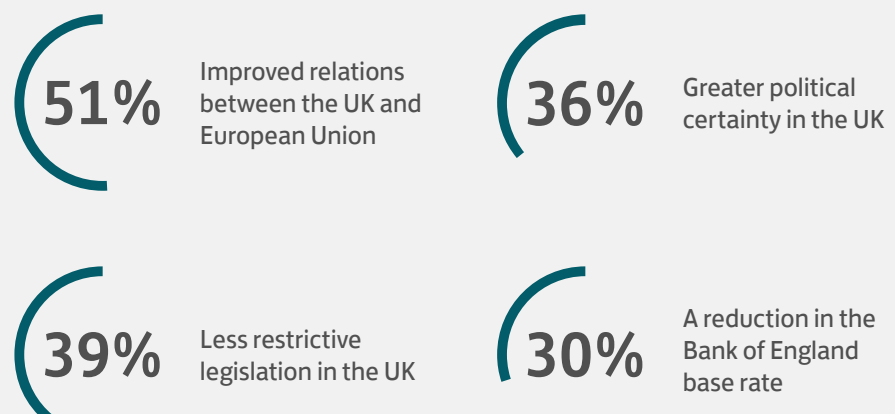
Levels of optimism for the UK financial services industry:



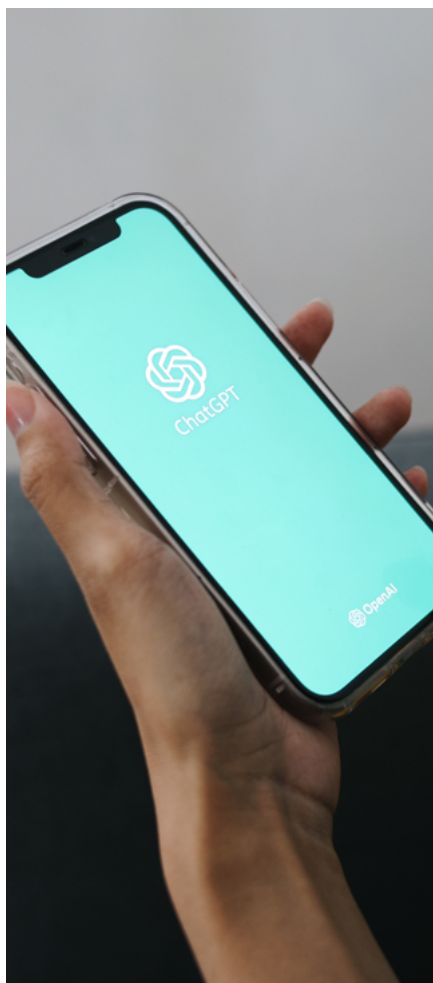
How are you planning to achieve your business growth ambitions?



What external factors would make your business more likely to increase investment in its UK operations in the next 12 months?



The focus on AI



Artificial Intelligence (AI) has swiftly evolved from a theoretical idea to a critical business asset, driven by the surge in interest around generative tools like ChatGPT over the past two years. Financial institutions have recognised the significant potential of AI, transitioning from passive monitoring to active investment, fundamentally transforming their strategic approaches.

In last year's survey, many firms were simply monitoring AI developments, which posed a risk of losing ground to more proactive competitors. However, this year's survey reveals a significant shift. Now, two-thirds (63%) of financial institutions are investing in AI, a dramatic increase from 32% in 2023. This shift underscores a growing recognition of AI's potential to drive competitive advantage and productivity. The majority, 81%, now view AI as a business opportunity, up from 56% last year. Only a small fraction, 3%, see AI as a threat, while 16% remain undecided.

AI's impact is already tangible, with 32% of businesses reporting enhanced productivity and 21% citing a competitive edge as a key benefit. The sentiment towards AI is overwhelmingly positive, with institutions eager to capitalise on its capabilities.

In response to this enthusiasm, nearly half (46%) of financial institutions have established dedicated AI teams to explore its use cases. Additionally, 39% are exploring partnerships with AI firms, and 15% have already formed such alliances.

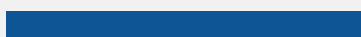
This strategic shift from exploration to investment signifies a pivotal moment for financial institutions. The increased focus on AI investment and positive perception points to a future where AI drives substantial productivity gains, competitive advantages, and overall business growth in the financial sector. The move towards AI is akin to past technological revolutions, promising to reshape the industry and create new opportunities for growth and efficiency.

What are the main opportunities and benefits you have seen from artificial intelligence (AI) within the business?

% who see AI as an opportunity

69% 

63% 

63% 

61% 

59% 

Greater insight
on customers

Improved
productivity

Driving business
growth

Competitive
advantage

Better client
experience

% who are already seeing the benefit of AI

 17%

 32%

 8%

 21%

 13%

London as a leading financial centre

63%

believe London will retain
its status as a leading
financial hub for the
foreseeable future

Improving relations
with the European
Union remains the
top priority

The City of London's position as a global financial centre remains a focal point of interest within the financial services industry. This year's survey provides a more positive view of the City's current status and future prospects.

Although 59% of respondents agree that London's standing as one of the world's leading financial hubs has diminished over the last five years, there is a notable increase in confidence regarding its future. A substantial 63% believe London will retain its status as a leading financial hub for the foreseeable future, up from 50% in the previous year.

There are, however, still challenges to overcome. Just over half (52%) of those surveyed agree that London's status is under threat without intervention, although this represents a decrease from 64% last year. Interestingly, 28% now disagree with this statement, indicating a more divided opinion on the City.

Improving relations with the European Union remains the top priority for maintaining or enhancing London's status, with 77% of respondents emphasising this need. Less restrictive legislation is seen as crucial by 44% of respondents, a slight decrease from last year's 49%.

A new emphasis on initiatives to encourage foreign direct investment into the UK has emerged this year, with 43% believing this would enhance London's reputation. Furthermore, 55% think this should be a priority for the new government, indicating a strong desire for policies that actively promote the UK's attractiveness to international investors.

These findings depict a financial centre that, despite facing challenges, is viewed with increasing confidence by industry professionals. Focusing on improved EU relations, balanced regulation, and proactive investment initiatives would create a pathway for maintaining and enhancing London's global financial status. As the sector continues to evolve, addressing these key areas will likely play a crucial role in shaping London's future on the world stage.

Sector spotlight

As part of this year's Financial Institutions Sentiment Survey, we have taken a deeper look at the opportunities and issues specifically impacting insurers, global banks, financial sponsors, and asset and wealth managers.

Insurers

77%

Said expectations of business growth over the next 12 months have improved

57%

Said greater political certainty will make it more likely they'll increase investment in their business

32%

Believe there will be increased capital raising over the next 12 months, while 55% said there will be no change compared to last year



"The insurance sector is in a buoyant mood with both life and non-life segments of the market positive about the next 12 months. A combination of strong investment portfolio returns, robust premiums and a positive outlook for capital returns is creating a sense of optimism. However, headwinds do remain in the market and insurers on both sides will need to remain vigilant as the year progresses."



Richard Askey, Managing Director,
Head of Insurance, Lloyds Bank

Global Banks

67%

Of respondents said they are optimistic about the long-term outlook for the UK economy

66%

Are also optimistic about the long-term outlook for the financial services sector in the UK

81%

View artificial intelligence as an opportunity for their business



"While there is a growing level of confidence amongst respondents, global banks are having to navigate several challenges and opportunities, given the evolving regulatory landscape, political and economic uncertainty, and the adoption and utilisation of AI."



Chris White, Managing Director,
Head of Global Banks & Specialist Finance,
Lloyds Bank

Sector spotlight

Financial Sponsors

58%

Of respondents are now more optimistic about raising capital compared to 2023

83%

Are more optimistic about the investment opportunities in their respective markets

80%

Said expectations of business growth have improved



“There is an increasing sense of optimism amongst financial sponsors following a more challenging external fundraising and deal environment. Our data signals that we are now at a pivotal point in the market with confidence growing around opportunities to deploy capital and unlock investment opportunities.”

**Jill Wilson, Managing Director,
Head of Financial Sponsors, Lloyds Bank**

Asset and Wealth Managers

41%

Said expectations of business growth over the next 12 months have improved, while 59% said their expectations remain unchanged compared to last year

56%

View AI as an opportunity for their business, while 38% are undecided

67%

Of respondents have created a dedicated team within the business to explore AI use cases



“Asset and wealth managers are facing a myriad of challenges, from new regulations and a volatile market environment to delivering sustainable business growth. This year’s survey highlights the significant role AI and emerging technologies will play in supporting them on this journey.”

**Tangwena Nelson, Managing Director,
Head of Asset & Wealth Managers,
Lloyds Bank**

Closing statement

This year's survey reflects a notable shift towards optimism, both for the UK economy and the financial services sector.

Despite ongoing challenges, the industry demonstrates remarkable resilience and adaptability. The renewed confidence in London's status as a global financial hub signals a bright future ahead.

As we navigate this dynamic landscape, it's crucial to balance short-term agility with long-term strategic thinking. The financial services sector's ability to adapt to changing circumstances while maintaining its core strengths of enterprise, creativity, and integrity will be key to its continued success.

The UK's financial services industry is well-positioned to lead in this new era. We're harnessing cutting-edge technologies, nurturing top talent, and fostering innovation to drive growth and create value for customers and the broader economy.

I hope the insights presented in this report will inform strategic decision-making and inspire continued innovation across the industry. Together, we can ensure that the UK financial services sector not only adapts to change but leads it, contributing to national prosperity and setting new standards of excellence on the global stage.

L Francis

Lisa Francis, Managing Director,
Head of Institutional Coverage,
Lloyds Bank



Methodology

To gather representative data, 102 decision makers at a cross section of UK financial institutions were surveyed between 18 April and 11 June 2024.

For more information speak to your relationship manager or use our **contact pages** for specialist support.

Please contact us if you would like this information in an alternative format such as Braille, large print or audio.

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