FINANCIAL SERVICES FIRMS UPBEAT ABOUT ECONOMIC GROWTH DESPITE 2017 HEADWINDS

Lloyds Bank Commercial Banking, Financial Institutions Sentiment Survey 2017:

- UK economy to remain resilient, despite continuing challenges and threats, according to top financial services firms operating in the UK
- Economic growth expected to match or outpace rest of the G7
- Uncertainty surrounding the UK/EU relationship is seen as biggest risk on the horizon, but many firms expect benefits to emerge including stronger relationships with US and Asian markets

The UK economy is on course for a resilient 2017, and could outperform other developed nations, despite the difficult political and economic headwinds on the horizon - according to a new survey of the views of the world’s biggest financial services firms, from Lloyds Bank Commercial Banking.

The Financial Institutions Sentiment Survey, now in its second year, canvassed the views of over 120 boardroom and senior executives across a broad spectrum of institutions - including global banks, challenger banks, asset managers and insurers, with combined revenue of around £530bn - on their opinions about the UK economy, investment plans, business risks, regulatory pressures and technological change.

Resilient growth, despite challenges

The report signals that although firms across the sector do harbour fears about a number of economic and political issues – including the future of the UK’s relationship with the EU – more than half (56%) believe that the nation’s economy will remain resilient in 2017, and a fifth (22%) expect it to improve this year compared to last. Three quarters (76%) anticipate that UK economic growth will be in line with, or outpace, the G7 average this year.

Edward Thurman, Managing Director, Head of Financial Institutions, Lloyds Bank Commercial Banking, said: “We knew that 2017 would be a year of political and economic challenges but the signs are that the UK is well placed to deal with the risks on the horizon.
“Financial services firms are an important barometer of the UK economy - and despite uncertainties such as the future of our relationship with the EU and new regulatory pressures, they are confident that the outlook for the UK over the coming year is better than had been expected.”

**Risks for the year ahead**

By far the biggest risk for 2017, highlighted by financial institutions, is the uncertainty surrounding the future of the UK’s relationship with the EU. Almost two thirds [63%] said that this issue is the primary threat for the year ahead, and they cited a range of specific concerns, including:

- Loss of passporting (65%)
- Barriers to Trade (50%)
- Loss of regulatory equivalence (35%)
- Access to EU skilled workforce (22%)
- Legal and regulatory changes (22%)
- Clients moving out of UK (22%)

Some financial services firms (18%) say they are considering moving operations out of the UK, following the UK’s decision to leave the EU. This is a slight increase from last year’s survey ahead of the EU Referendum, when 13% said they would move in the event of a decision to leave. Of those planning to move operations, 91% are looking to move between 1 - 25% of operations, suggesting financial executives are focused on tactical and operational changes rather than wholesale strategic shifts.

When respondents were asked which cities they were considering, a range of alternative locations across Europe were mentioned, including Amsterdam and Zurich, as well as US cities, Chicago and Washington DC.

Among the other risks highlighted in the report are: economic uncertainty (45%), new regulation (43%), geopolitical uncertainty (39%) and market volatility (28%).
Firms also see a number of potential benefits for the UK in exiting the EU, including, stronger relationships with US and Asian markets (66%); new trade links with non-EEA countries (60%); potential for new legal and regulatory changes (51%); and UK economic prospects (40%).

Edward Thurman added: “There is no escaping the fact that the UK’s future relationship with Europe is a cause for concern across the financial services sector. Firms are clearly apprehensive about passporting and trade barriers - however they are also alive to the opportunities, not least in the potential for new links with Asia and the US.

“There are also clear signs that firms are committed to maintaining a significant presence in the UK. While some do plan to transfer certain operations overseas, the number intending to do so has not risen significantly since before the referendum result, and in almost all cases they are only looking at a partial move.”

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Notes to Editors
- The Financial Institutions Sentiment Survey report will be available to download on Monday 20 March, 2017.
- The survey is based on responses from a sample of 122 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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