



THE BANKING LANDSCAPE IN THE UNITED KINGDOM

To help New Zealand exporters identify opportunities and mitigate risks in the UK banking sector.

NZTE EUROPE MARKET RESEARCH, ERIN MADDREN | JUNE 2023



Introduction to this report

Background

The UK banking sector is one of the largest and most sophisticated in the world, with a diverse range of banks and financial institutions operating in the country.

With the UK being a major hub for international trade and commerce, it presents a potentially attractive market for New Zealand exporters looking to expand their business overseas.

Purpose

The purpose of this research is twofold:

- 1) To provide New Zealand exporters with an understanding of the current state of the UK banking sector.
- 2) To help enable New Zealand exporters to identify opportunities, mitigate risks, and ultimately grow their business in the UK banking market.

Methodology

This report was generated using desktop research, with NZTE subscriptions and publicly available data. Key sources of data are listed below:

- **Euromonitor International**
- **Statista**
- **IbisWorld**

Limitations

Most of the information provided in this report was sourced from secondary data sources. Due to the nature of secondary data, all values and figures should be treated as indicative, rather than absolute. The latest information available at the time of research was used, however present values may differ.

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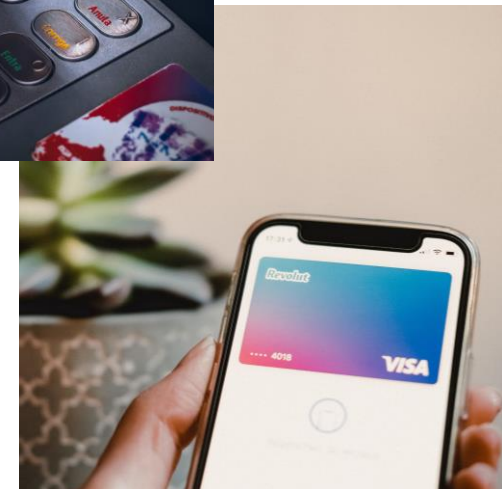
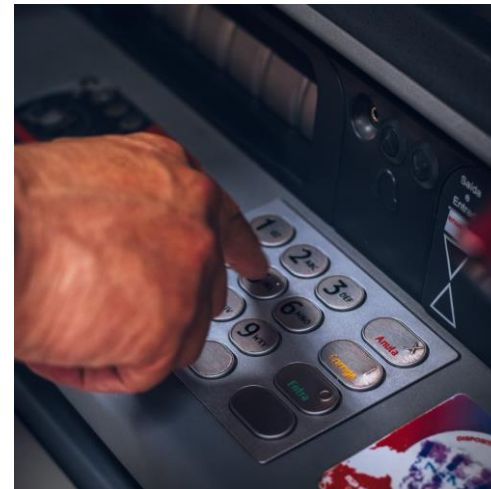
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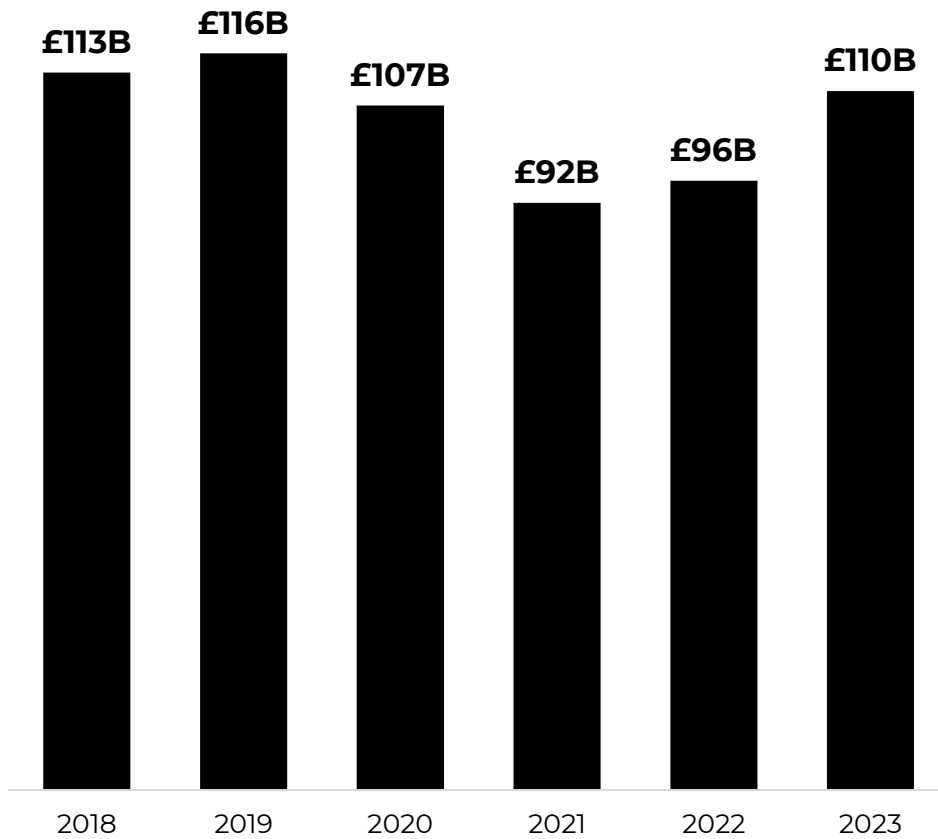


SECTION 1

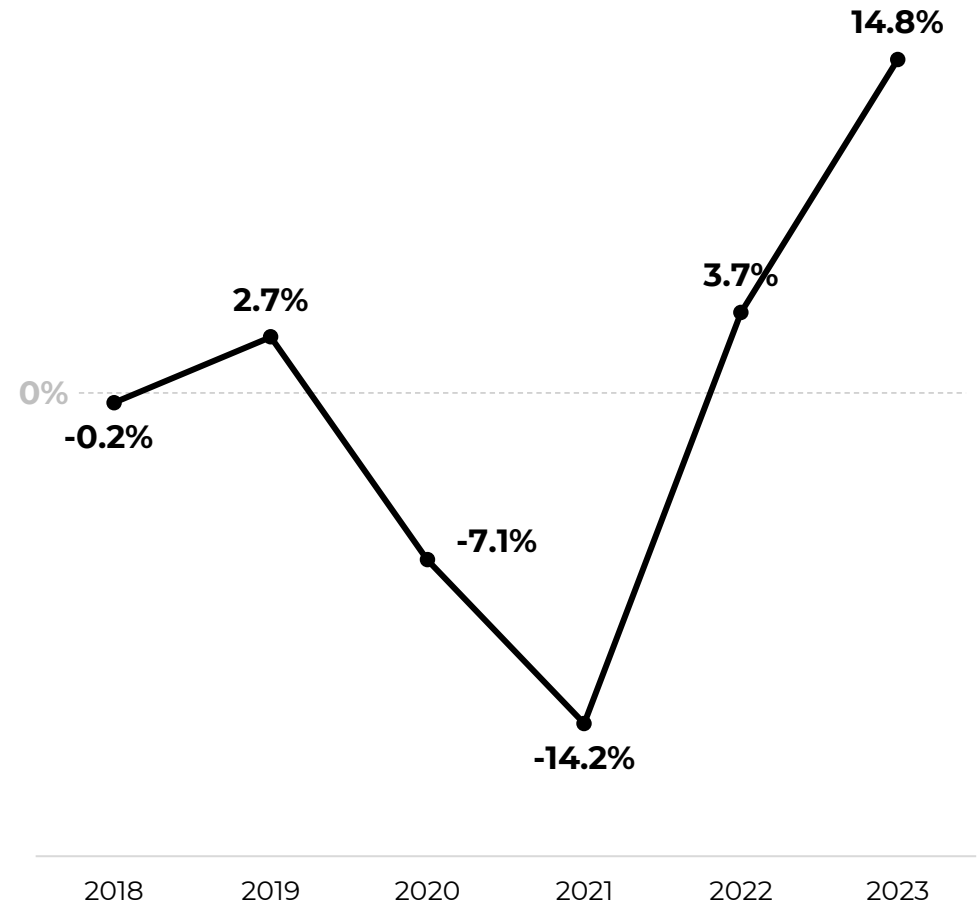
OVERVIEW OF BANKING IN THE UK

Banking revenue in the UK was in decline in 2020 to 2021, but it has shown some growth in 2022 and 2023.

Banks total revenue in the UK 2018-23
In billion GBP

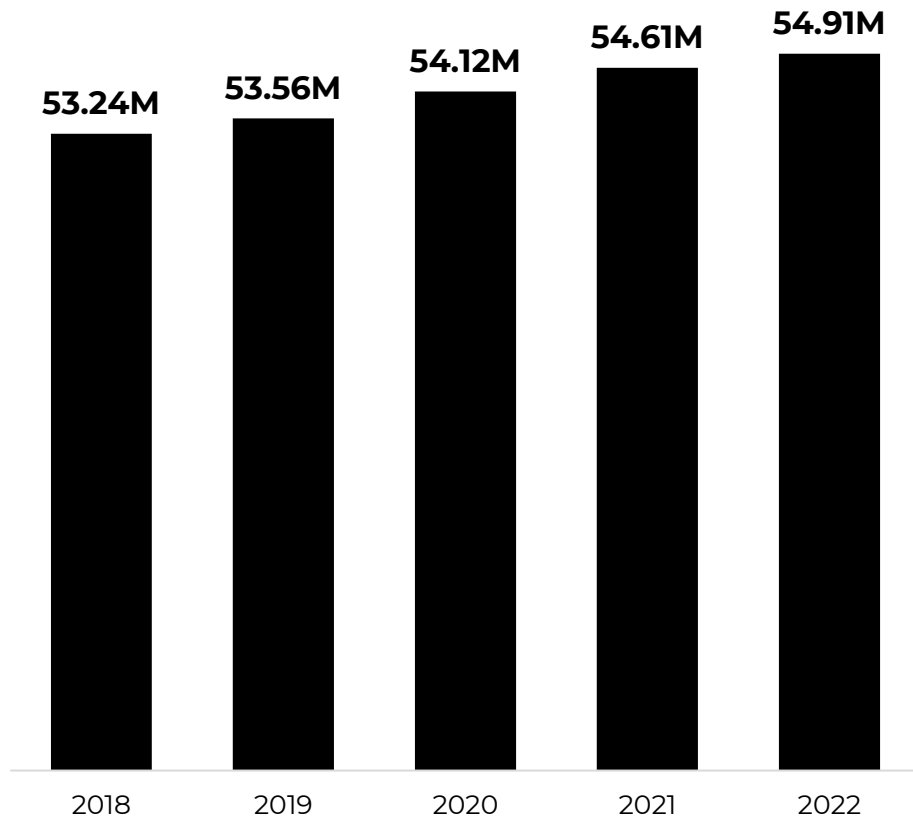


Banks revenue change in the UK 2018-23
% change

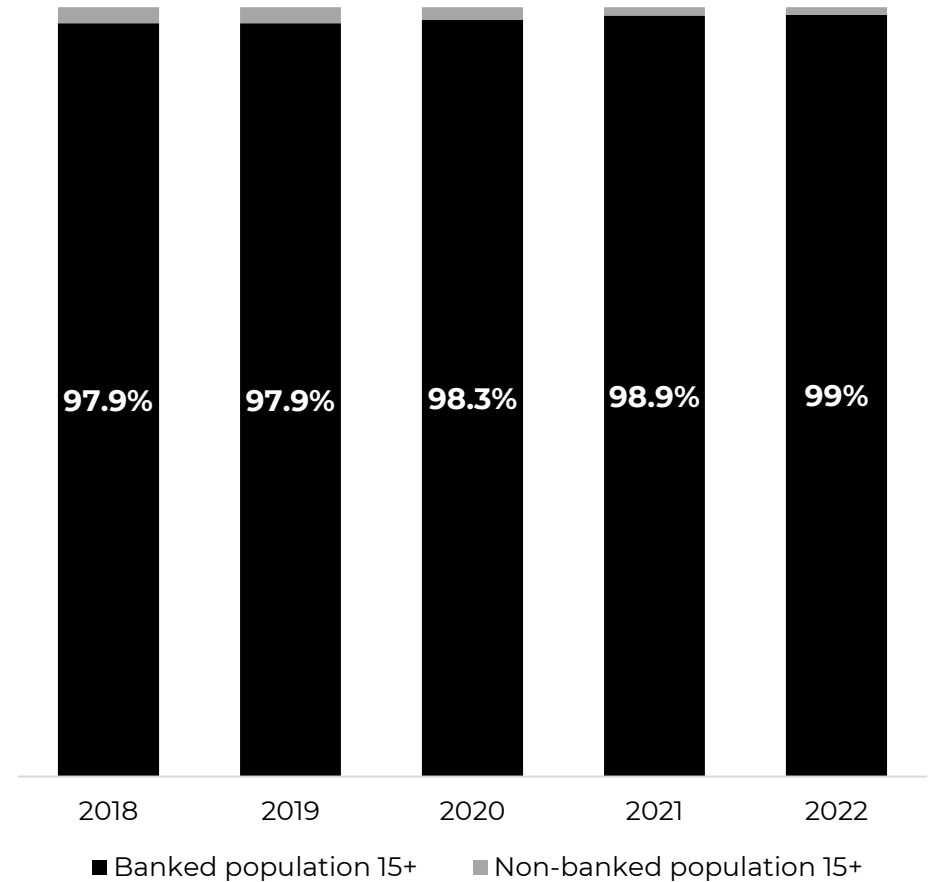


Today, almost 100% of the UK population above 15 years old has a bank account. The market is mature.

Total Banked Population in the UK
15 years+

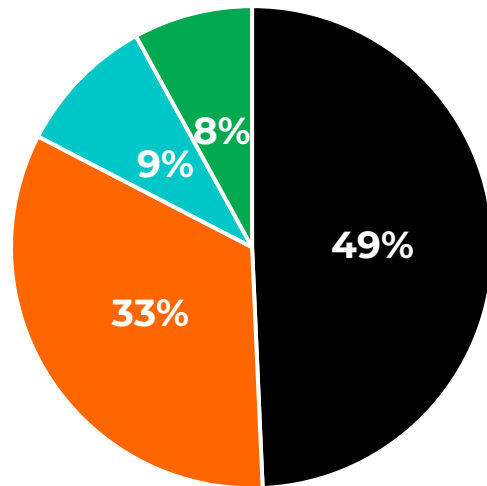


Percentage Banked Population in the UK
15 years+



More than half of the UK banking market, in revenue terms, caters to individuals/personal banking.

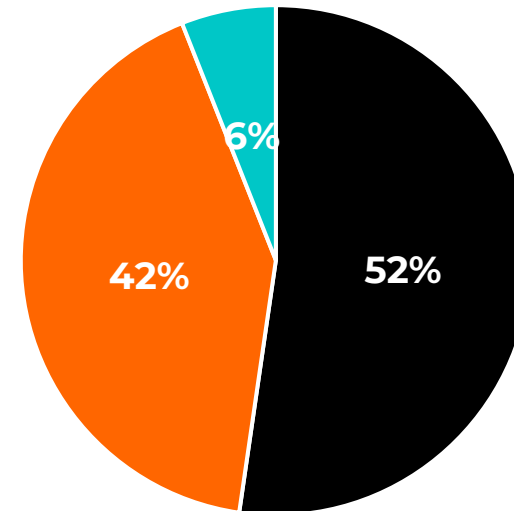
Banks in the UK services segmentation by revenue 2023



- Home loans
- Business loans
- Personal loans
- Depository services

Home loans	£54 B
Business loans	£36.5 B
Personal loans	£10.3 B
Depository services	£8.8 B

Banks in the UK major markets segmentation by revenue 2023



- Individuals
- Businesses
- Other

Individuals	£57.3 B
Businesses	£45.7 B
Other	£6.6 B

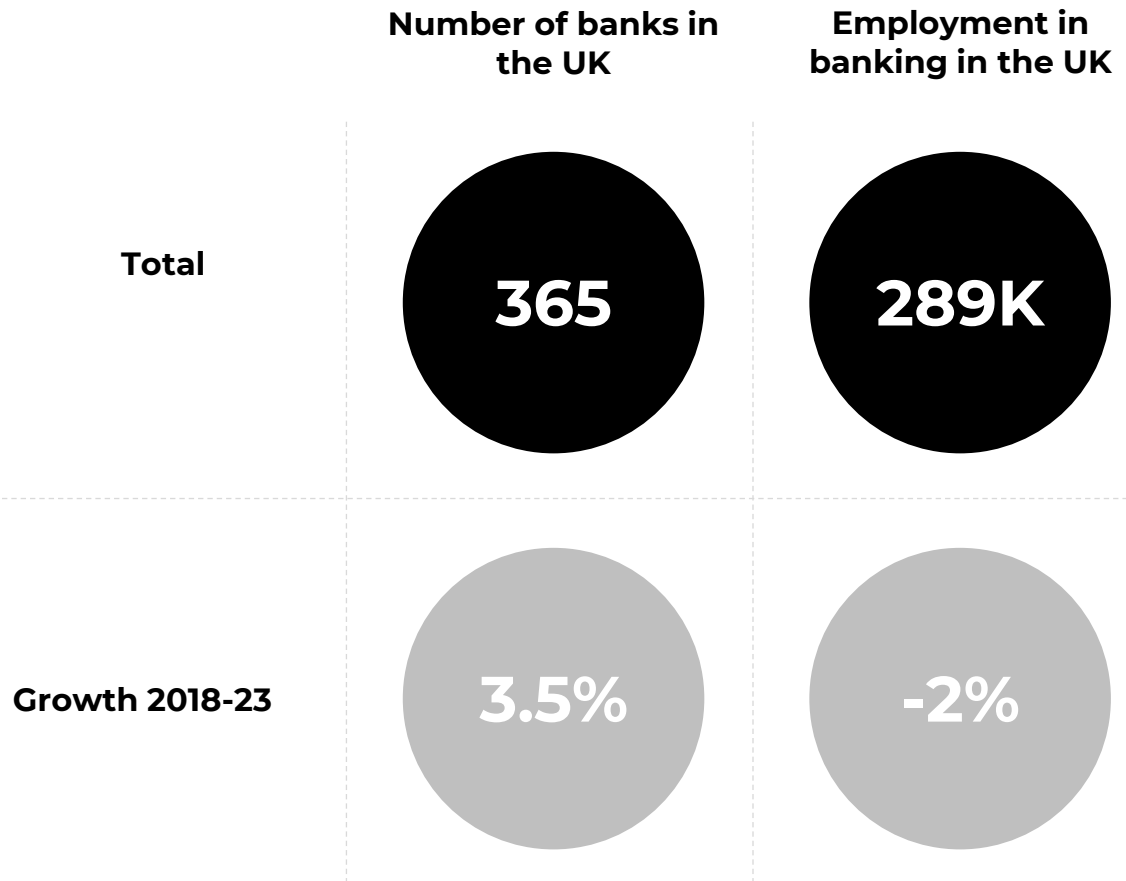
UK banks are responding to digital developments by automating processes and scaling down their workforce.

The banking industry in the UK has witnessed an increase in the number of banks despite a decline in employment.

This can be attributed to technology advancements and changing consumer behaviour. Technological innovations have automated banking processes, reducing the need for a large workforce. Online banking and mobile apps have made it convenient for customers to access services without physical branches.

Banks have responded by prioritising digital offerings and reducing focus on physical branches. This has led to cost-cutting measures and staff reductions in the industry. Operations have been streamlined to improve profitability, aligning with consumer preferences for online banking.

While employment in the banking sector has decreased, technology advancements have created new job opportunities. Roles in fintech, data analytics, and cybersecurity have emerged as the industry adapts to the digital landscape. Thus, traditional banking jobs have declined, but the overall employment landscape in the financial sector has transformed rather than simply decreased.



London is the core financial hub of the UK and this proportionally exceeds the difference in population across regions.

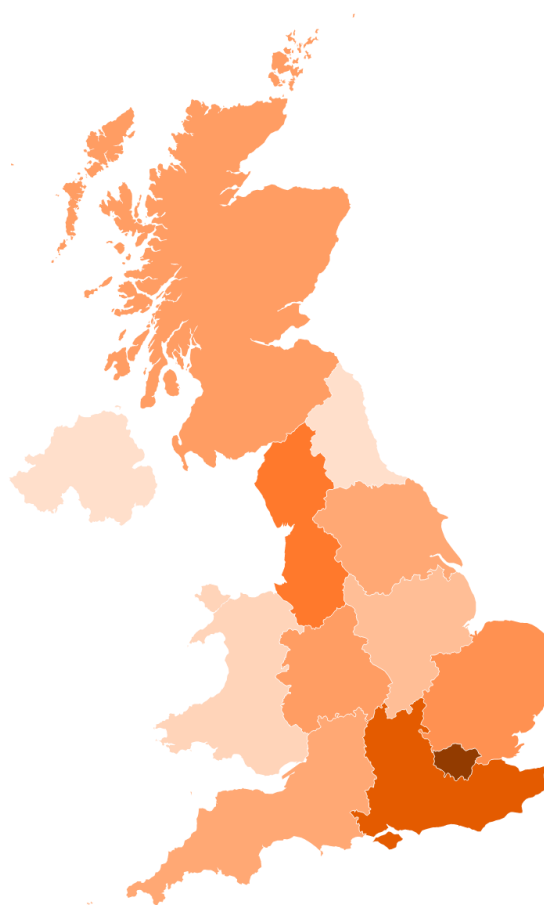
London is the financial hub of the UK, with 23% of banking revenue coming from this area.

The South East's large economy and population attract banks, making it the UK's second most important banking centre.

The North West, with Manchester as a key economic hub, has high manufacturing activity that fuels the demand for lending services.

Despite this, both of these regions have experienced a significant decline in bank branches over the past decade.

Bank concentration by industry revenue share in the UK 2023



Location	Share of revenue
London LDN	23%
South East SE	15%
North West NW	11%
East of England EE	9%
West Midlands WM	8%
Scotland SCT	8%
South West SW	7%
Yorkshire & the Humber YH	7%
East Midlands EM	5%
Wales WLS	3%
North East NE	2%
Northern Ireland NI	2%



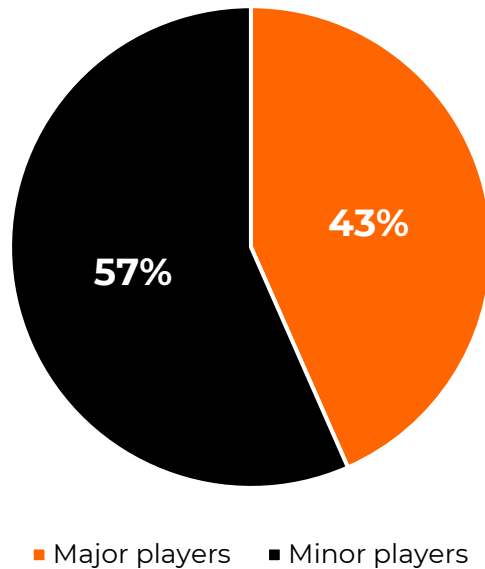
Revenue share vs. population share



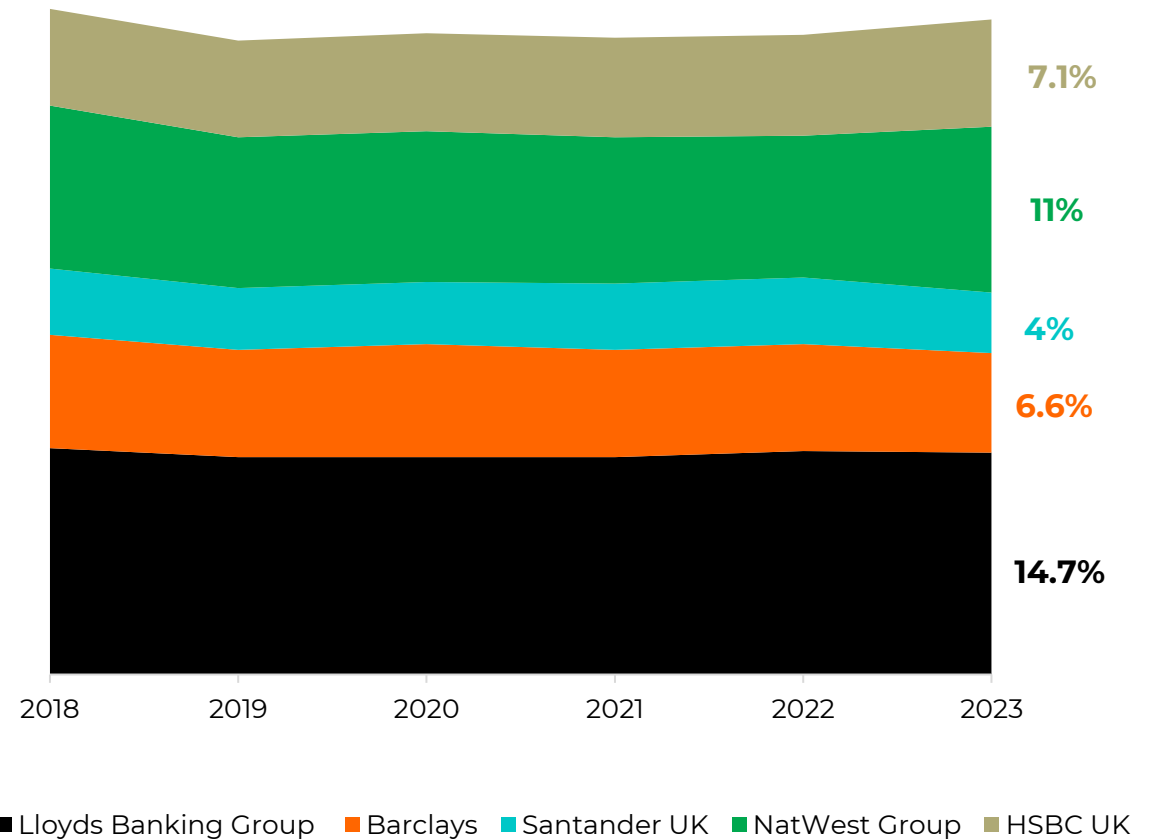
Source: IbisWorld, *Banks in the United Kingdom*, 2023.

Despite a large share of the market being made up of major players, smaller digital banks are on the rise. Therein may lie opportunities.

Market share concentration of banking in the UK 2023



Major banks market share in the UK 2018-23



Technological advancements and innovative products have enabled smaller companies and digital challenger banks such as Starling Bank Ltd, Monzo Bank Ltd, and Atom Bank plc to expand their market presence. This poses a threat to the established dominance of traditional lenders.

Majority of the major traditional banks in the UK are restructuring with job and branch closures. This demonstrates the strategy of leaner operating models.

Profiles: major banks in the UK



Lloyds Banking Group Plc

With its long-standing history and reputation, Lloyds Banking Group is a key competitor in the UK banking market. They also have some international presence through subsidiaries.

Recently, Lloyd's have been undergoing restructuring, closing a number of branches and roles. It is focusing more heavily on the UK market, making up 95% of it's business now.

HQ: London

Net income: £18.1 billion

Employees: 59,354

Brands: Lloyds Bank, Halifax, Bank of Scotland, Scottish Widows, MBNA, Schrodgers, Citra, Lex Autolease, BlackHorse, Birmingham Midshires, AMC, LDC, WEB, Embark Group, Cavendish Online.



NatWest Group Plc

Known for its customer-centricity and sustainable practices, NatWest Group positions itself as a trusted bank. It's core market is in the UK, however, they have operations internationally.

NatWest has strategically divested from Ireland, focusing on their position in the UK. Moreover, they are transitioning towards majority private ownership, reducing government involvement.

HQ: Edinburgh

Net income: £13.2 billion

Revenue: £12.1 billion

Employees: 62,500

Brands: Royal Bank of Scotland, Ulster Bank, NatWest, Coutts, Adam & Company, Child & Co., Drummonds, Holt's Military Banking, Isle of Man Bank, Lombard.



HSBC UK Bank plc

HSBC is owned by HSBC Holdings. They are the most globalised player among the UK banking market.

With a global presence and a strong focus on customer-centric services, HSBC UK positions itself as a reliable and innovative financial partner.

HSBC UK has implemented restructuring measures to enhance cost efficiencies and profitability. These efforts include job cuts and branch closures.

HQ: Birmingham

Revenue: £8 billion

Employees: 40,000

Brands: HSBC, First Direct, M&S Bank, John Lewis Finance

While many of the major players are focusing more on the UK market, Barclays is expanding in Ireland.

Profiles: major banks in the UK



Barclays plc

Barclays is a prominent bank in the UK, positioning itself as a trusted provider of comprehensive financial solutions for individuals and businesses. It also operates in several other markets including the US, India and South Africa.

Barclays has undergone significant restructuring, including branch closures. Additionally, Barclays has expanded its operations in Ireland and experienced a rebound in revenue in 2022.

HQ: London

Net income: £25 billion

Revenue: £7.2 billion

Employees: 44,00 (in the UK)

Brands: Barclays UK, Barclays International



Santander UK plc

Santander, the parent company of Santander UK plc is one of the most prominent banking groups worldwide.

With a strong emphasis on digital innovation, Santander UK aims to provide convenient and accessible banking solutions while maintaining a commitment to excellent customer service.

Santander UK faced a significant financial penalty for anti-money laundering failures, impacting its relationship with business customers. Additionally, the bank has undergone branch closures.

HQ: London

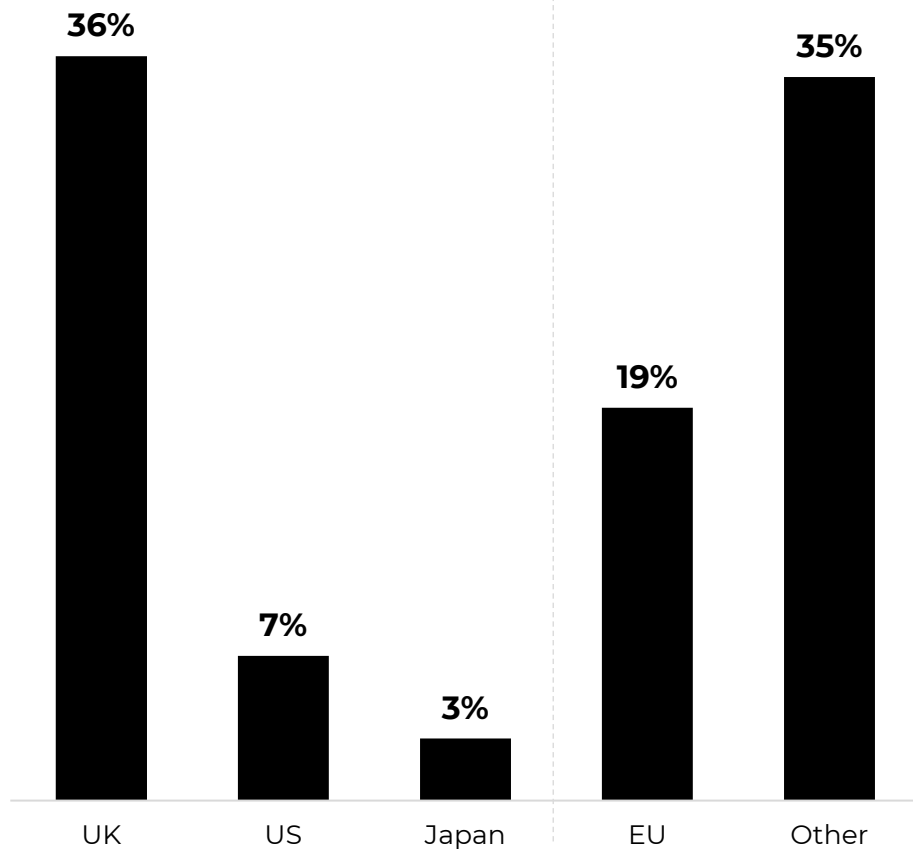
Net income: £5 billion

Employees: 21,860

Brands: Santander

Over a third of banks in the UK are domestically owned. Almost 1/5th of the banks in the market are owned by EU countries. There are a small number of, mostly large scale, US banks active.

Number of banks operating in the UK, by origin 2022



US

There are 24 US-owned banks currently operating in the UK.



Japan

There are 10 Japan-owned banks currently operating in the UK.



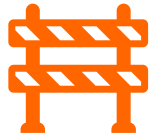
European Union Countries

There are 69 EU country-owned banks currently operating in the UK.



Regulatory changes, the economic environment, and digitalisation are key macro-trends that are currently impacting the UK banking sector.

Key trends in the UK banking landscape



Regulatory constraints on bank profitability

In the past few years, increased regulations and tighter scrutiny have impacted the profitability of banks in the UK. The payment protection insurance (PPI) scandal has been a significant factor. PPI policies were mis-sold to customers who didn't require them. This has led to compensation claims, resulting in substantial financial costs for banks.

However, the profitability of banks faces potential further challenges if the deadline for making PPI claims is extended. Such an extension would allow more customers to submit claims, leading to additional compensation pay-outs by the banks.



Mortgage affordability impacts revenue growth

High mortgage rates have been a driving force behind the increased revenue observed in the UK banking sector during 2022-23. These rates have allowed banks to generate more income from mortgage lending.

However, this trend started to experience a slowdown due to declining mortgage affordability.

Despite this, the UK has recently seen a decline of average house prices for the first time in a decade. Read more [here](#). This is an area that is constantly changing and has a significant impact on the sector.



Digital competition heightens

The next five years will witness a heightened competition from digital-only lenders. As these fintech companies gain traction and attract more customers, traditional banks are compelled to revamp their digital services to stay competitive. This shift towards digital banking is expected to lead to further closures of physical branches, as more customers embrace online banking and prefer the convenience of digital channels.

The industry's transition towards an online-centric model reflects the evolving preferences and behaviours of customers, and traditional banks must adapt and invest in digital infrastructure to remain relevant in the highly competitive landscape.



Anticipated impact of Big Bang 2.0 reforms

The UK banking sector is bracing itself for significant impacts from the upcoming Big Bang 2.0 reforms. These reforms are anticipated to bring big changes to the industry, including potential alterations to market structure, regulations, and competition. However, the sector is not likely to witness the implementation of these reforms until at least 2024.

Banks are preparing for a transformative period ahead as they strategise and adapt their operations to align with the anticipated reforms. The timeline provides an opportunity for banks to assess and adjust their business models and practices.

The UK is a mature banking market, with a number of large incumbent players. Despite this, digital advancements are disrupting the industry. New digital entrants are emerging and traditional banks must keep apace.



SECTION 2

NEOBANKING

A neobank is a type of challenger bank that operates solely digitally. Neobanks are newly established banks that do not belong to large conventional banks. They do not have any physical branches and can provide their services both via mobile or desktop devices. They require their clients to go through a digital onboarding process, most frequently via smartphone. Neobanks can be of two types: those which have a banking license and those that do not.

Statista

Neobanks have rapidly increased in popularity over the past few years. They have 28% penetration and over 19 million users in the market.

Neobanks have experienced significant growth in the UK banking industry in recent years.

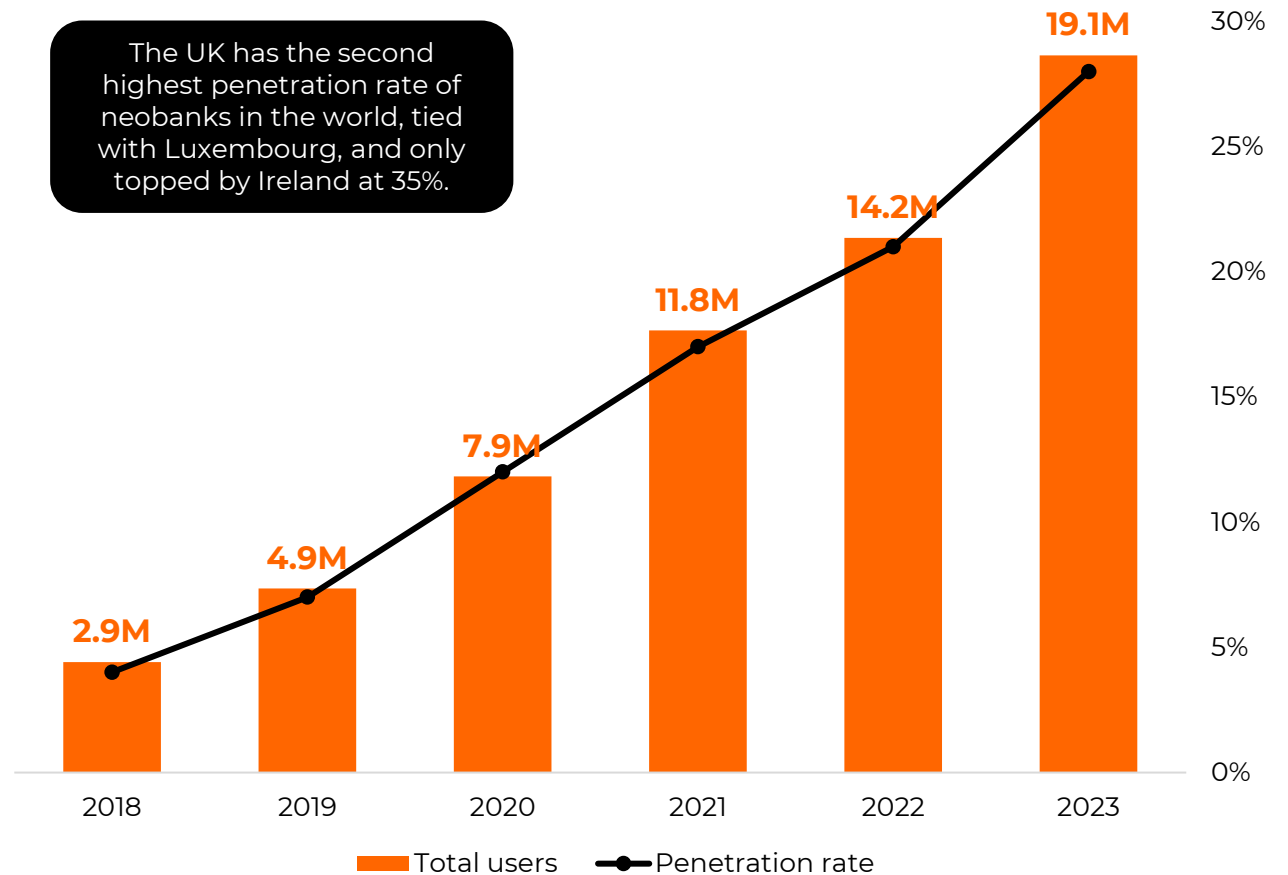
These online-only banks offer competitive fees, user-friendly functionality through mobile apps, and innovative features such as built-in budgeting and saving tools.

Their popularity stems from a combination of factors, including low consumer confidence in traditional banks due to past financial crises and cyber-attacks, as well as regulatory changes that have reduced barriers to entry in the banking sector.

However, neobanks face challenges in customer acquisition and profitability. Building trust and changing consumer habits remain obstacles, and profitability is yet to be achieved for many neobanks.

Traditional banks have responded by seeking partnerships with fintech companies and investing in digital strategies to enhance their own services.

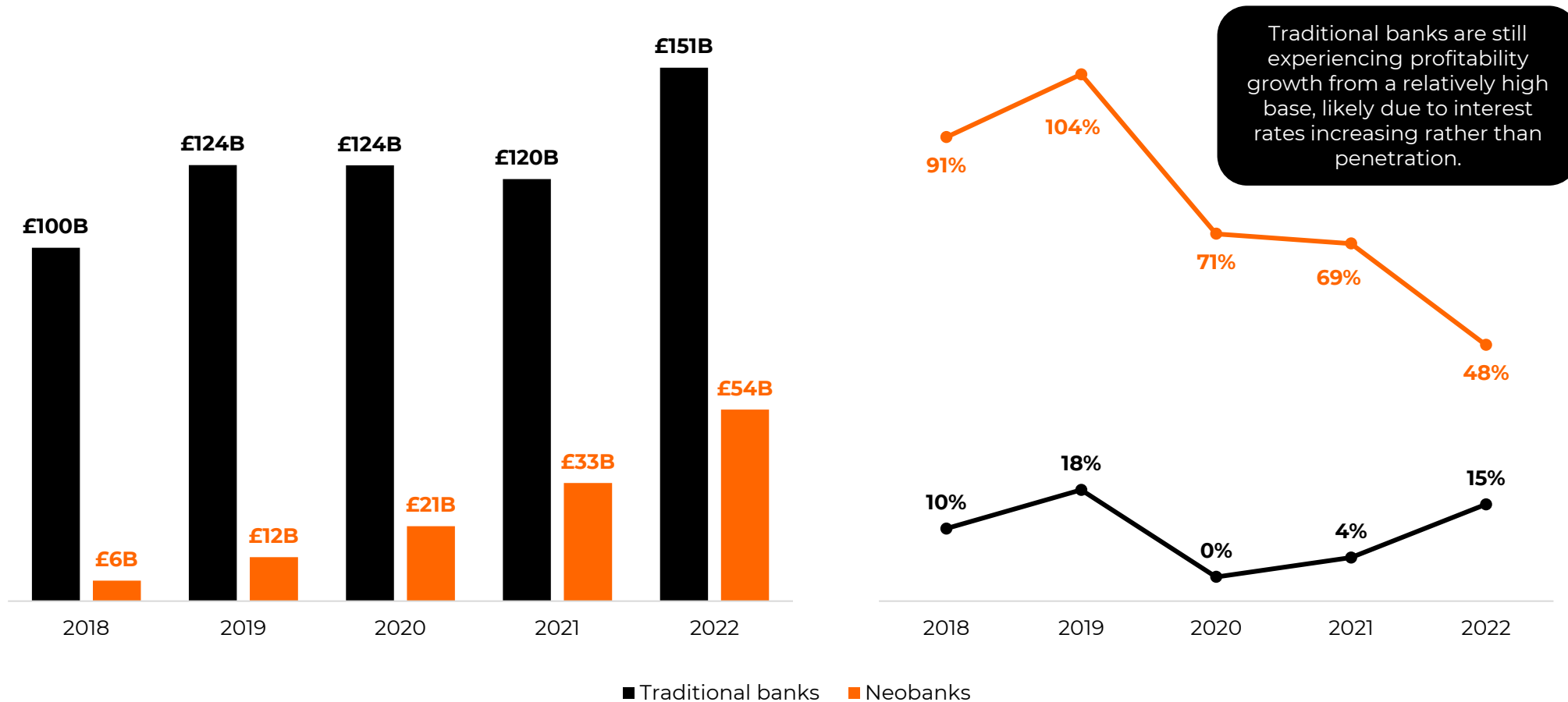
Neobanking users and penetration rate in the UK 2018-23



As a mature market, traditional banks have a higher profitability than neobanks. However, neobanks profitability is growing faster.

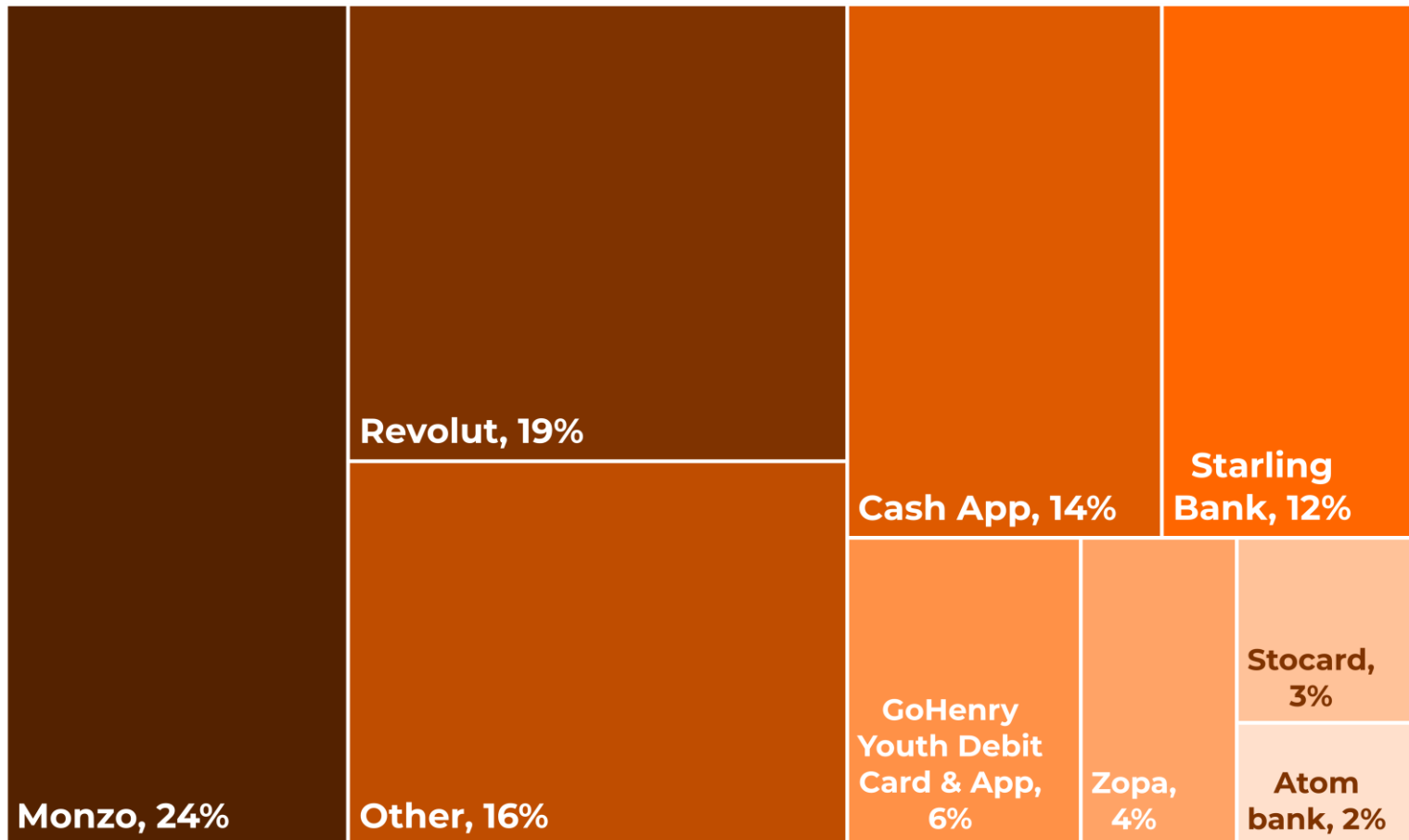
Net Interest Income of traditional banks and neobanks in the UK 2018-23

Total (£) & change (%)



Monzo leads the market for neobanking in the UK. The UK is their core focus market, while other players like Revolut are active in a number of markets.

Neobanking brand share in the UK 2022



Revolut



ZOPA



Neobanks have gained significant popularity in the UK, appealing to those seeking seamless and technology-driven banking experiences.

Profiles: leading neobanks in the UK



Monzo

Monzo has made a significant impact in the UK market. Their customer-centric approach and commitment to disrupting traditional banking practices have attracted a tech-savvy customer base.

Monzo holds a 4% global market share, but is the market leader in the UK.

HQ: London

Revenue: £154 million

Employees: 1,863

Markets: UK, USA



Revolut

Revolut is a prominent digital banking and financial technology company known for its borderless banking services and innovative features.

Revolut is available in 36 markets globally and has a 9% worldwide market share, after CashApp and tied with Tinkoff.

HQ: London

Revenue: £636 million

Employees: 6,000+

Markets: UK, USA, Australia, Singapore, Switzerland, Japan, European Economic Area (30 countries).



Cash App

CashApp is a popular mobile payment platform in the US and UK. Its user-friendly interface and integration with other Square products have positioned it as a trusted and accessible financial tool.

CashApp is the global market leader in neobanking, with 16% brand share worldwide.

HQ: San Francisco, USA

Revenue: \$5 billion USD (~ £4 billion)

Employees: 2,000+

Markets: USA, UK

Neobanking is a growing space worldwide. The UK has a very high relative penetration rate, indicating that banking players in this market, both traditional and digital, may be more open to solutions that can help their bank deliver better customer experience, efficiencies and more, as they face heavy competition.



SECTION 3

CONSUMER INSIGHTS



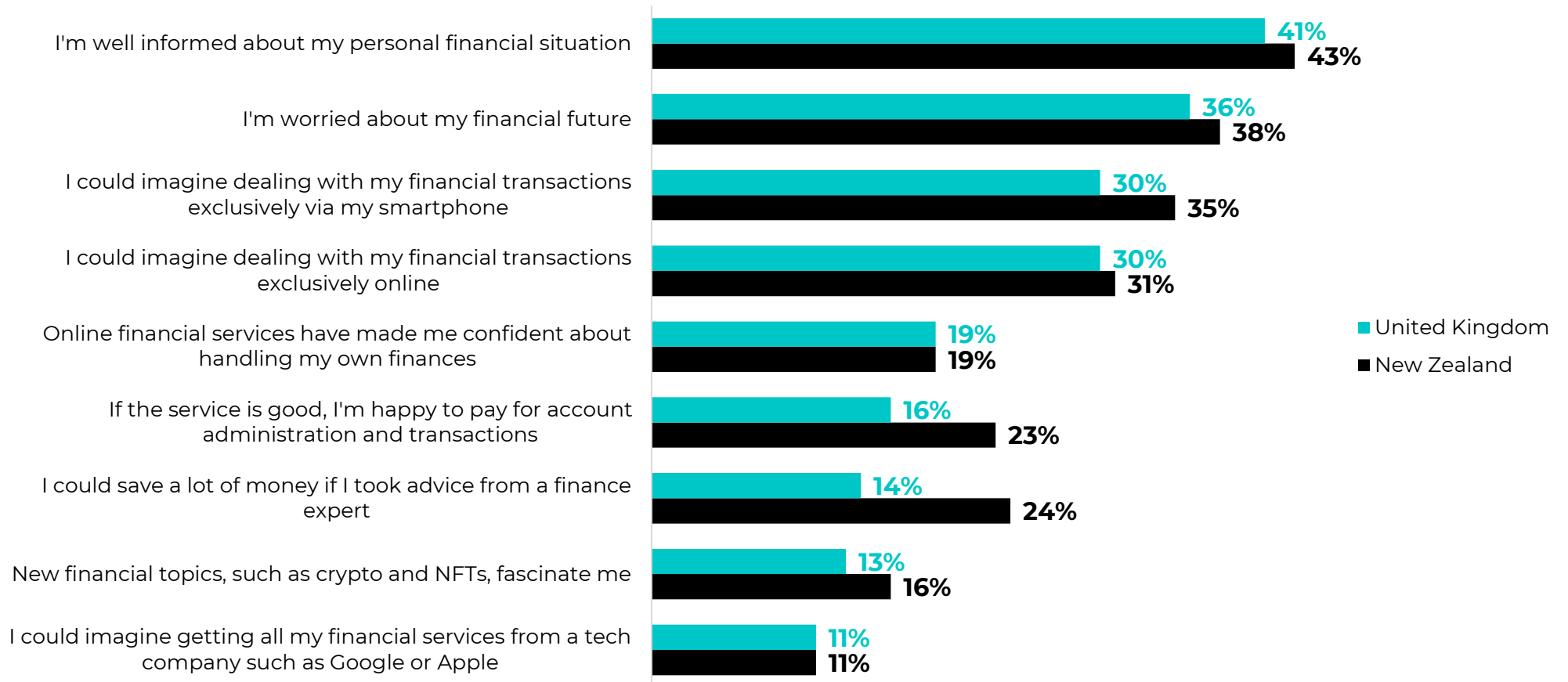
The following slides look at consumer behaviour relating to banking and finances.

This reflects personal finances and perceptions of individual consumers, as opposed to businesses.

New Zealand is used as a comparison market as a point of reference to the UK on one of the slides.

In comparison to NZ, UK consumers are less inclined to pay more for good service from banks and less likely to take advice from a finance expert.

Attitudes towards personal finances, UK vs NZ 2023
Multi pick: 'Which of these statements about finance apply to you?'



Credit card ownership has declined over the past 5 years, while investment in cryptocurrency has doubled.

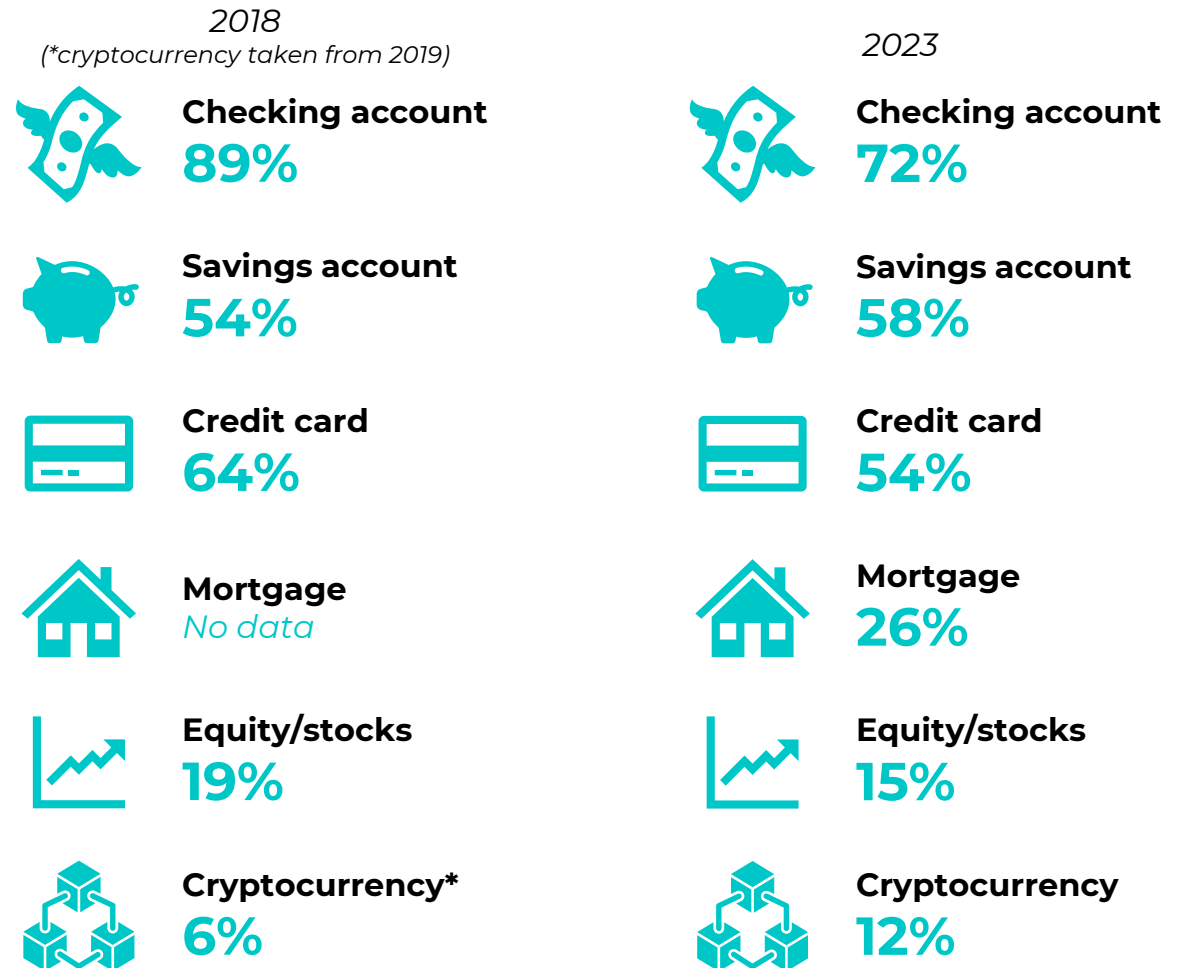
Over the past five years, UK consumers' investment in financial products has shifted.

Credits cards have become less common amongst consumers over the past five years. This can be attributed to a range of factors, such as the growth of neobanks and alternative payment options, such as buy now, pay later services. As well as this, attitudes towards personal debt may be shifting with the cost of living crisis imminent.

Cryptocurrency has doubled in investment by UK consumers since 2019. This can be largely attributed to the increased awareness and popularity of cryptocurrencies such as Bitcoin and Ethereum, regulatory frameworks put in place and institutional adoption.

Financial products used UK 2019 vs 2023

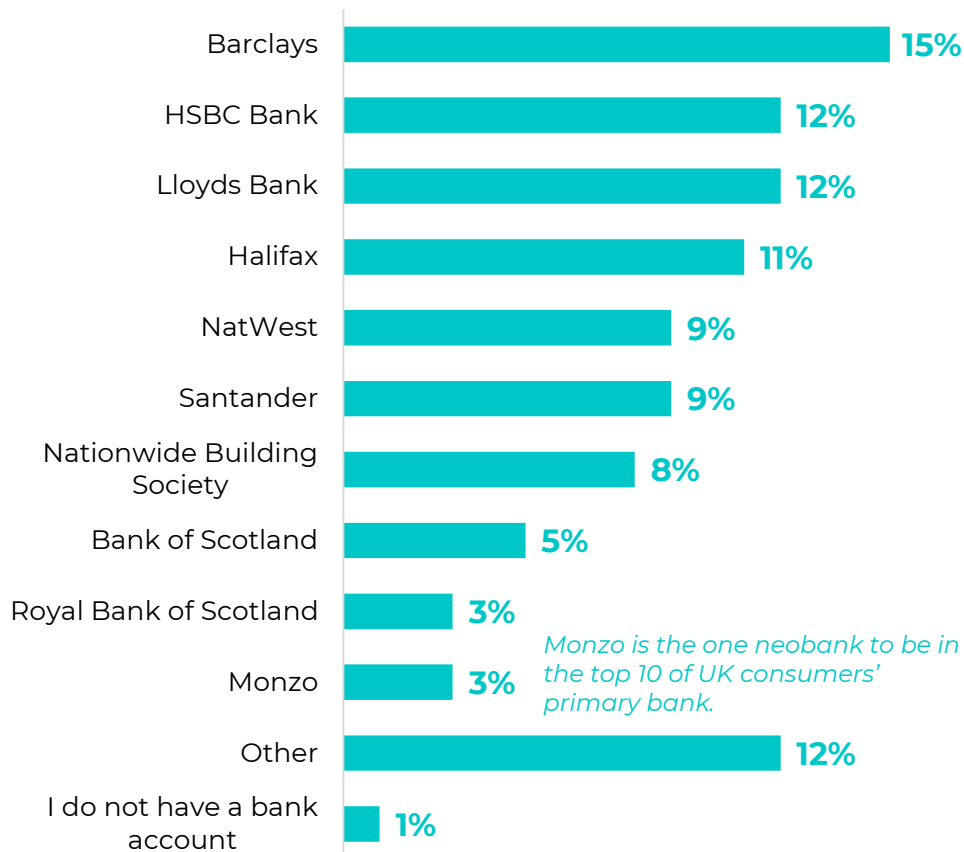
Multi pick: 'Which of these financial products and investments do you currently use/own?'



Although the majority of UK consumers are satisfied with their primary bank, this does not always correspond to loyalty to the bank brand.

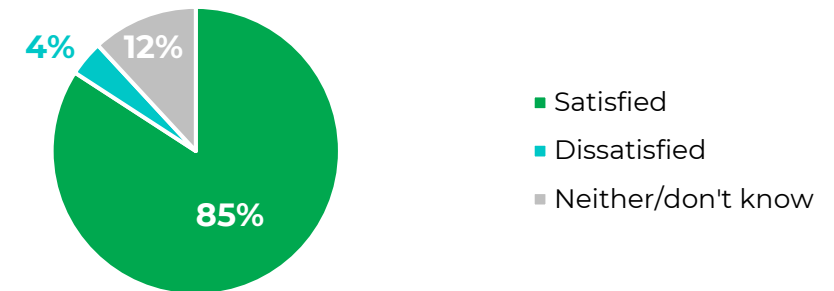
Primary bank in the UK 2023

Single pick: 'At which of these banks is the account held that you primarily use?'



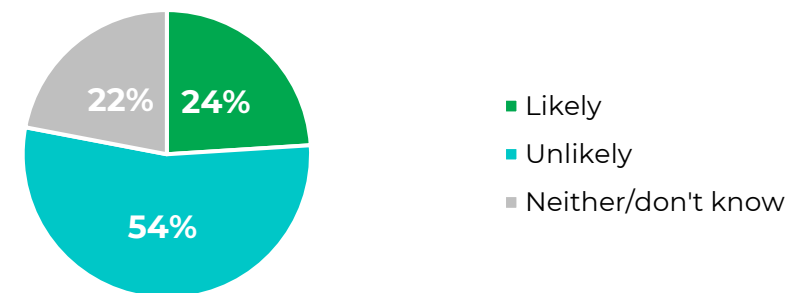
Satisfaction with primary bank in the UK 2023

Single pick: 'How satisfied are you currently with your primarily used bank?'



Willingness to change primary bank in the UK 2023

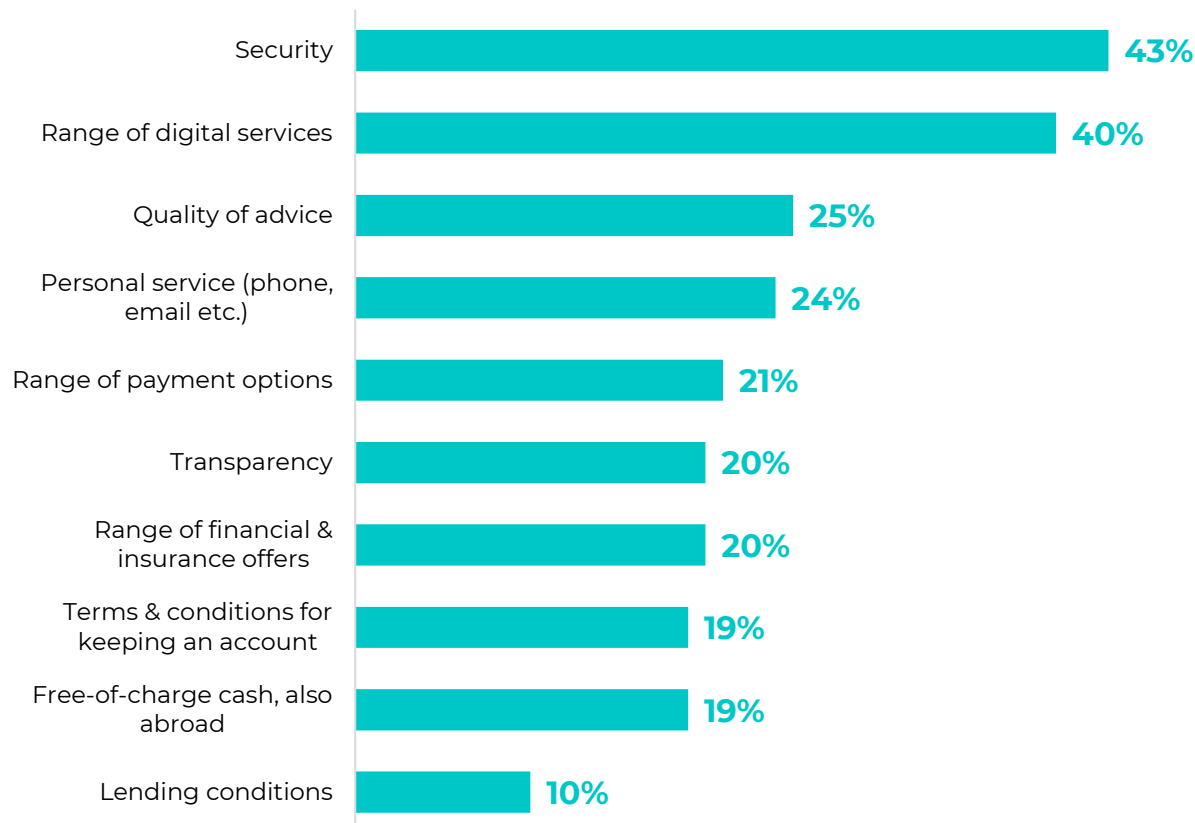
Single pick: 'How likely are you going to change your primarily used bank on the next possible occasion?'



Security and digital offerings are areas that primary banks in the UK are good at, from consumers' point of view.

Strengths of primary bank in the UK 2022

Multi-pick: 'Which of the following services is your primarily used bank especially good at?'



The primary banks of UK consumers stand out for their strong focus on security, recognised by 43% of respondents. This underscores the commitment of UK banks to implementing robust security measures and advanced technologies to safeguard customer information and transactions.

Another notable strength of UK consumers' primary banks is their extensive range of digital services, as indicated by 40% of respondents. This highlights the excellence of UK banks in offering innovative and user-friendly digital solutions that cater to customer needs effectively.

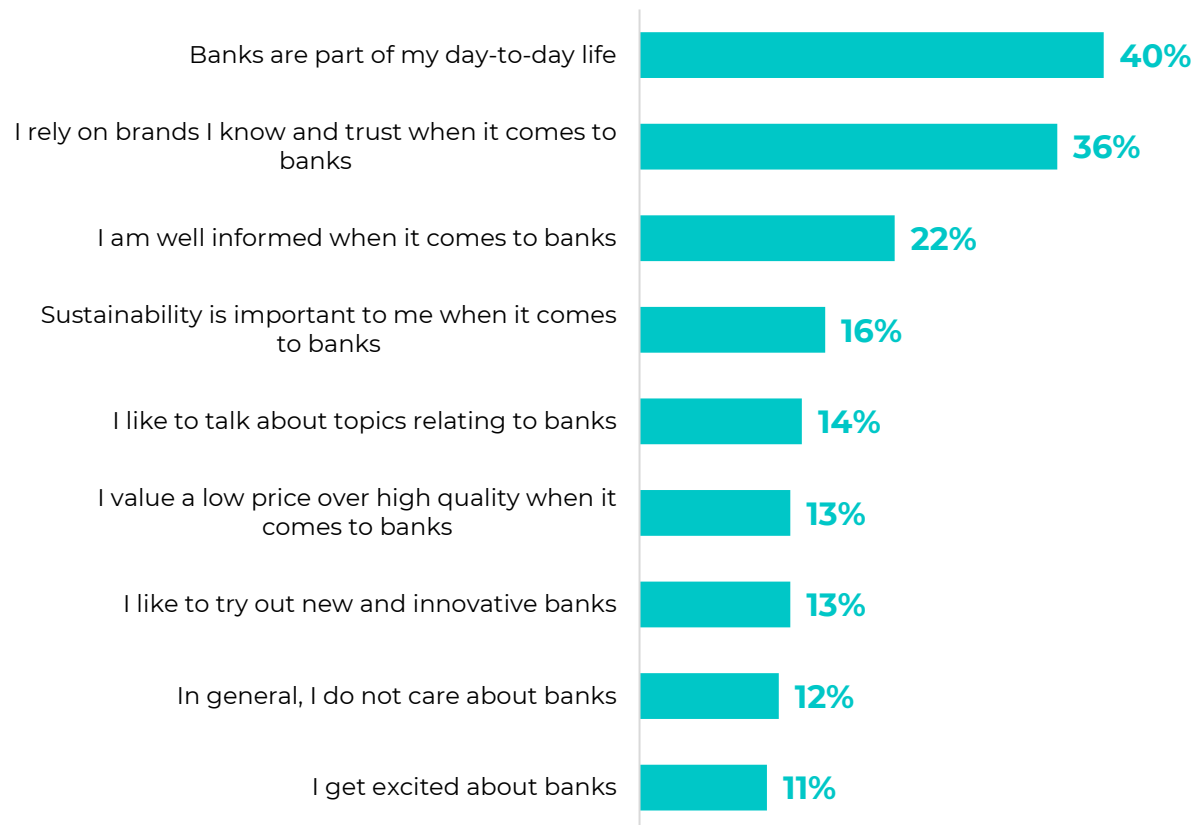
Highlighting expertise in security or offering to innovative solutions that can cater to UK consumers' needs may be an opportunity for NZ businesses.

Alternatively, or as well, NZ businesses could support UK banks or provide alternative solutions in the areas they are weaker in, such as lending conditions and free-of-charge cash.

Trust in brand is very important for consumers of UK banks. Exporters may consider how their offering can help banks enhance trust.

Attitudes towards banks in the UK 2022

Multi-pick: 'Which of these statements about banks do you agree with?'



- Brand Trust: Over 1/3rd of respondents rely on brands they know and trust when it comes to banks, highlighting the importance for banks to build and maintain a strong brand reputation.
- Innovation and Price: 13% of respondents prefer trying out new and innovative banks, while another 13% prioritise low prices over high quality, indicating a need for banks to offer competitive pricing and innovative services.
- Sustainability: Approximately 16% of consumers consider sustainability important when choosing a bank, suggesting a growing interest in environmentally and socially responsible banking practices. Banks can differentiate themselves by emphasising their commitment to sustainability.

For New Zealand exporters seeking to supply to the UK banking sector, these insights offer valuable guidance on the priorities of UK banks. When approaching banks as potential partners, it is crucial to consider how your offering can meet the needs of banks that are actively considering their customers' expectations and preferences.

While awareness is higher for the likes of Lloyds Bank and Barclays, Santander benefits from the highest degree of loyalty.

Perceptions of banks in the UK 2022

Selected UK banks

Bank	Awareness	Popularity	Usage	Loyalty	Buzz
Lloyds Bank	95% ▲	27%	21%	81%	25% ▲
Barclays	94%	33% ▲	26%	79%	25% ▲
Halifax	93%	32%	27% ▲	76%	24%
HSBC Bank	92%	25%	20%	77%	18%
Santander	92%	31%	20%	86% ▲	19%
National Westminster Bank	91%	15%	14%	82%	8%
Nationwide Building Society	91%	25%	19%	85%	12%
Tesco Bank	86%	15%	11%	76%	8%
The Co-operative Bank	84%	10%	5%	75%	6%
Royal Bank of Scotland	83%	9%	6%	77%	5%
Bank of Scotland	82%	12%	6%	75%	10%
Monzo	70%	29%	18%	78%	16%
Alliance & Leicester	66%	5% ▼	2% ▼	75%	3%
Yorkshire Bank	66%	7%	5%	11% ▼	2% ▼
Clydesdale	54%	9%	5%	46%	6%
NS&I National Savings & Investments	46% ▼	18%	12%	79%	5%

NZ exporters can consider how they can help banks deliver good customer experiences and create efficiencies with key trends in mind. These can be used to frame positioning when selling the UK market.



Consumers are adopting new, disruptive financial products, such as cryptocurrency. They are also adopting digital-only banks. This demonstrates the need for banks in the UK to stay relevant and move with trends.



Satisfaction with primary banks is high but this does not necessarily mean people will stay loyal. Banks in the UK need to continue to deliver great customer experience to keep people banking with them.

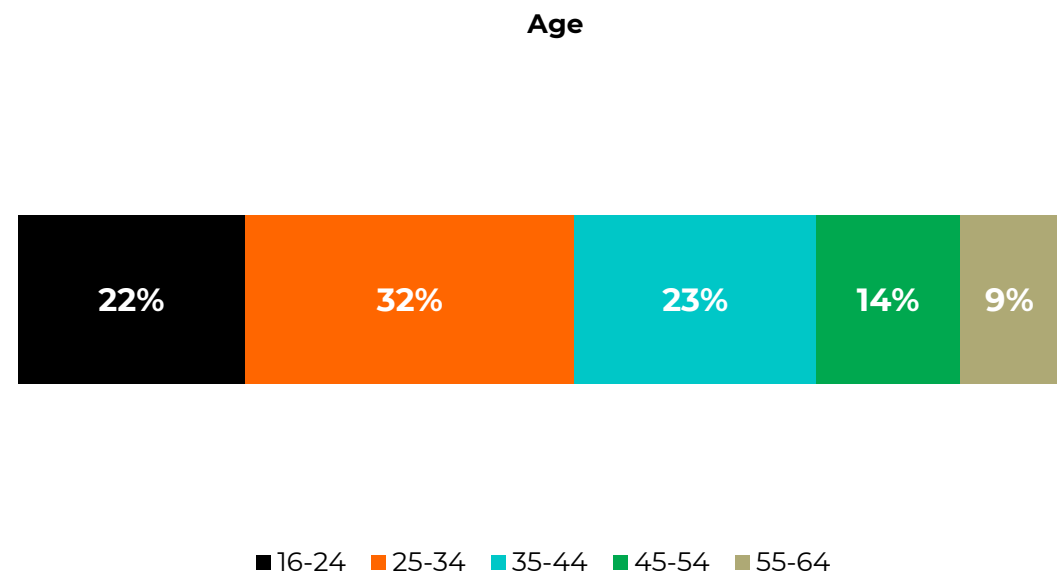
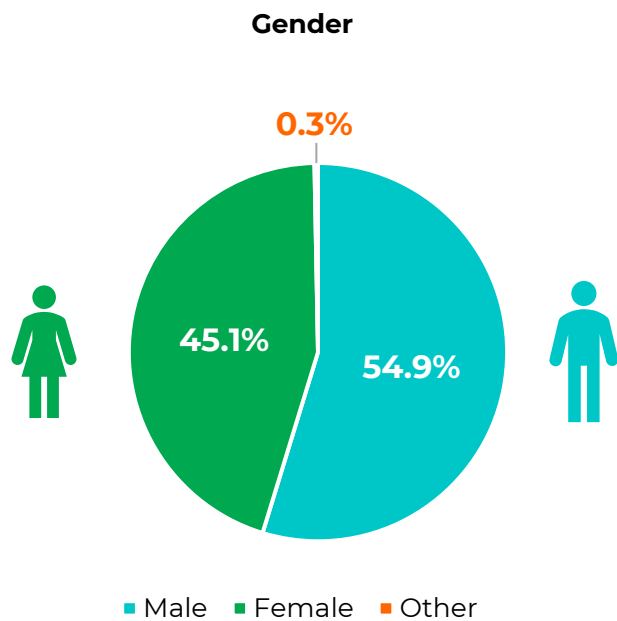


Trust in brand, innovation and price, and sustainability are three important factors for UK consumers when it comes to banks. These are factors that could convince someone to change from one bank to another.

The majority of those who have used neobanking apps in the past month, are under 34, indicating a younger demographic preference for digital-only banking platforms.

Demographics of neobanking users

'In the last month, which of these websites / apps have you visited or used?'
Results based on respondents who selected neobank apps (Atom, Monzo, Revolut, Starling)



They key strengths of neobanks are their ease/convenience and superior digital offerings.

Top five reasons why UK consumers are opening neobanking accounts 2022

27%

Doing all banking online is more convenient.

24%

Digital seemed to be the easiest option.

21%

I want to transfer my money more easily.

18%

I like to receive real-time notifications on my spending.

18%

I think the apps are better with digital-only banks.

Opening digital-only bank accounts in the UK has gained popularity for several compelling reasons. Firstly, convenience plays a significant role as digital banking allows individuals to access their accounts anytime and anywhere through mobile apps or online platforms. The ease of managing finances, making transactions, and checking balances without the need to visit a physical branch appeals to the fast-paced, tech-savvy lifestyle of many UK consumers.

Moreover, digital-only banks often offer a streamlined and user-friendly experience. Their intuitive interfaces, personalized features, and smart financial tools provide enhanced control and visibility over one's financial activities. From tracking expenses to setting savings goals, these digital platforms offer a range of interactive and empowering tools that align with the needs and preferences of tech-oriented consumers.

The popularity of neobanks is skewed towards younger customers in the UK. The top reasons for using these digital-only banks are to do with convenience and superior digital offerings.

If New Zealand exporters are looking to sell to neobanks, they should be aware of the banks' target markets and their expectations and values. Furthermore, some exporters may be able to provide traditional banks with the means to keep competing with neobanks.

SECTION 4

INDUSTRY ASSOCIATIONS AND EVENTS

UK Finance is the key association for banking and financial services. Previously known as British Bankers' Association, it merged with a number of other trade bodies in 2017.

Key industry associations



UK Finance

UK Finance is the main trade association for the UK banking and financial services sector. It represents banks, building societies, and other financial institutions.

UK Finance works to promote the interests of its members and support a vibrant and sustainable banking industry.

Prior to 2017, the leading trade association was British Bankers' Association (BBA). In 2017 BBA merged with other trade bodies to form UK finance, covering a broader range of financial services.

Members: ~300 finance, banking, markets and payment services firms.



Association for Financial Markets in Europe

AFME represents a wide range of banks and other financial institutions operating in Europe, including major global and European banks. While it covers various financial market activities, it includes a significant focus on banking-related issues such as regulation, market infrastructure, and capital markets.

Their mission statement is "We advocate for deep, integrated, and sustainable capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society."

Members: 173 financial institutions across Europe (incl. UK)

UK finance host an annual conference. As well as this, there are a number of other industry events in the finance and banking space.

Key industry events



Commercial Finance Conference

The Commercial Finance Conference is an event organized by UK Finance. It offers professionals in the UK banking and financial services sector a valuable platform to learn, network, and stay informed about the latest developments in the field of commercial finance.

2023 event date: 28 06 23 – 29 06 23

[Link here](#)



Banking Transformation Summit

The Banking Transformation Summit is an event focused on the future of banking.

Organised by industry leaders, the summit brings together professionals from the banking and financial services sector to explore the latest trends, strategies, and technologies shaping the industry.

Attendees can expect engaging sessions, insightful keynote speeches, and valuable networking opportunities.

2023 event date: 22 06 2023

[Link here](#)



Fintech World Forum

The FinTech World Forum, hosted by Fintech Conferences, is an event that brings together global leaders, innovators, and experts in the fintech industry.

With a focus on the latest trends, challenges, and opportunities, this forum provides a platform for interesting discussions, engaging keynote speeches, and networking opportunities.

2023 event date: 21 06 23 – 22 06 23

[Link here](#)

New Zealand exporters targeting the UK banking sector may want to consider attending key industry events to learn more about the market and to have networking opportunities.



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