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UK financial institutions don't have high hopes for 2023 economic growth, but see bright spots in hiring and tech efficiency gains

Article

The news: UK financial institutions **don't expect robust economic growth in 2023, but their outlook isn't completely grim,** according to the Financial Institutions Sentiment Survey conducted by Lloyds Bank.

The data was gathered through a survey of key decision-makers at 109 UK financial institutions between June and July 2022.

The economy: Most UK FIs agree that the economic outlook over the next 12 months is bleak.

- Just 7% expect economic growth to improve in 2023, compared to 88% from last year's survey.
- **Only 12% expect growth to improve in the financial services sector,** versus 51% last year
- 70% believe inflation will be the major reason for a weak UK economy in 2023, while 63% cited the rising cost of living.

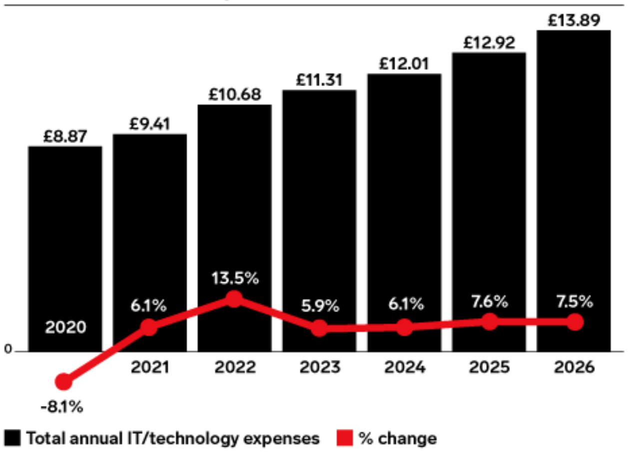
Many UK citizens are barely making ends meet, struggling with covering their grocery and utilities bills. And despite tighter central bank monetary policy, inflation continues to rage in the country.

Technology: 75% of UK financial institutions feel their operating expenses will increase over the next year. But many FIs believe they can partly combat their increasing operating costs through technology investment.

- 72% of FIs plan to invest in new technology to make their operations more efficient
- Many FIs are spending on their core systems, prioritizing **investments in the cloud (79%), payments (69%), APIs (66%) and machine learning and artificial intelligence technologies (61%).**

Our UK Bank Technology Spending report estimates that bank tech spending will reach £10.68 billion ($12.56 billion) in 2022 and continue to grow steadily to £13.89 billion ($16.33 billion) by 2026.

UK Banks' Total Annual IT/Technology Expenses*, 2020-2026
billions and % change



Note: *includes expenses by banks with FDIC-backed consumer and business expenses and savings accounts; expenses include core systems maintenance, modernization, innovation, transformative technology, data processing, equipment, software, digital initiatives, compliance, and cybersecurity
Source: Insider Intelligence, March 2022

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Talent acquisition and retention: Though the banking industry has recently been plagued with layoffs and redundancies, **79% of UK FIs said attracting and retaining talent is a top strategic priority.**

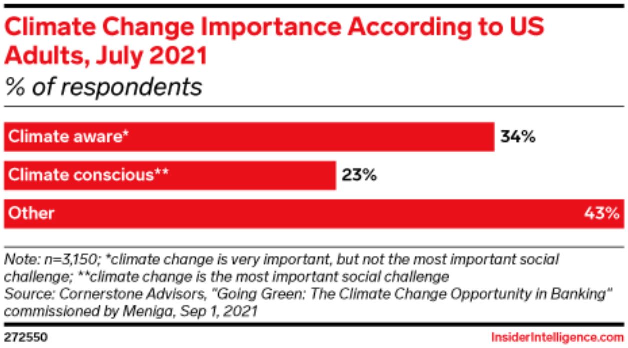
- Though 12% said they were planning layoffs, 43% said they have plans to hire in 2023.

With many tech firms leaning on layoffs to cut their costs, banks and other FIs could reap benefits by attracting these workers with strong technology backgrounds to focus on technological efficiencies.

Sustainability: Climate consciousness has been top of mind for FIs, customers, and regulators, but the topic has proven to be a challenge for many banks.

- Over half (59%) of respondents have committed to net-zero emissions, and 77% of them say they are on track to hit their deadline.
- But reaching net zero will be tough. **54% of FIs said they are struggling to determine the right information to report and monitor performance and 47% are having difficulties reducing emissions outside of their own operations.**

The lack of clarity on green banking rules is starting to take a toll on FIs, and some are even backing out of the commitments they made.



Cryptocurrency: Despite the UK's desire to be an open banking and technology hub, FIs are growing weary of the hype around the benefits of cryptocurrency. **Just 23% of firms think the UK should focus on becoming a tech hub for crypto.** This is likely a result of the meltdown the crypto market experienced in H1 2022 from which it's still recovering.

Our take: The economic downturn is still in its early stages, but UK firms are seeing a glimmer of hope in 2023. Efficiencies through technological development will likely reduce the need for layoffs, and FIs' focus on attracting and retaining employees to power technological change is a positive sign.

But the challenges that UK-based FIs face in the coming year aren't confined to the UK. Globally, firms are likely to feel many of the same pressures we've mentioned, and they'll need to adjust to a slowing economy to make it through.

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