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Press Releases

Uncertainty in the UK Banking Sector

Harry Philpott • April 01, 2025

The UK banking sector is one of the largest and most sophisticated in the world; and the challenges they face match their stature.

2024 was a strong year for the banking sector, interest rates were high, and bottom-lines reaped the rewards. However, with interest rates now falling in the face of lower headline inflation, the banking sector must deal with the continuous challenge of the wider business uncertainty, geopolitical instability and regulatory changes whilst trying to maintain their strong financial profile.

Positivity, robustness and confidence were the core underlying themes of UK banks' financial results. Net Interest Margins were strong in 2024 as interest rates remained elevated for longer than expected. Firm cost control and strong asset quality proved to be the catalyst for strong results with major U.K. banks delivering an average return on tangible equity (RoTE) of 14.8% in the first half of 2024.

Going into 2025, the positive sentiment may be wavering. Director's and Officer's will know that current market conditions do not necessarily represent or provide an indication of the medium to long-term future, not only for the banking sector but also for their customers.

According to the Office for National Statistics (ONS), 61% of businesses have some form of concern about the outlook for their company. The S&P Global UK Services PMI, a closely watched business survey and one favoured by financial markets, scored 50.8 in the latest index, above the neutral score of 50, signalling only a marginal expansion of business activity. Moreover, on average in the final quarter of 2024, the index was the lowest for that year. There is a clear concern amongst wider UK businesses and this will no doubt be a key factor in banks' boardrooms as they look forward.

Directors within the UK banking sector will also be mindful of falling interest rates. The UK CPI annual rate has reduced to 3%, still above the Bank of England's target of 2% but a far cry from the October 2022 high of 11.1%. As inflation falls, so do interest rates. The Bank of England has cut the rate 3 times since August 2024 and with each cut more pressure is applied to the Net Interest Margins.

Additionally, reform of current regulation has been the centre piece of conversation within the UK Government, with the Chancellor placing particular emphasis and pressure on UK regulators to focus more on supporting economic growth. This may be a good thing for the UK banking sector in the medium-term, but uncertainty around regulation places a heavy burden in the short term on current decisions which have such heightened future consequences. The decisions made by boards regarding AI implementation and ESG reporting, for example, fall into this category. Decision makers must balance between staying within the confines of regulation whilst remaining competitive with the rest of the industry.

It is important that the UK banking sector faces up to these challenges including implementing adequate governance and appropriate risk management strategies. Boardrooms will take comfort that resilience has been built into the system, with the Bank of England’s desk-based stress test showing that the UK banking system is strong enough to support households and businesses even during severe stress scenarios.

Additional peace of mind can be found by partnering with an appropriate insurance provider that is able to contribute to the mitigation of the evolving risks faced by the sector by sharing claims and regulatory insight, as well as providing protected through appropriate, comprehensive and tailored insurance solutions.

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Harry Philpott

Underwriter - Financial Institutions

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