



**zensar**

# Key Trends: UK Financial Services Industry

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A Zensar POV

## Macro view

- Bank of England cuts rate from a 16-year high by a quarter point (5.25 to 5 percent) on August 1, 2024.
- The inflation has fallen back to 2 percent, a steady decline over recent months which was **3.2 percent** in March 2024.<sup>1</sup>
- The Government had already set a target of keeping inflation at 2 percent, and the independent pay review bodies have recommended a wage increase of 5.5 percent for teachers and NHS workers, which may result in inflationary pressure in the future.
- The Bank of England will continue to have an accommodative policy to balance inflation and growth.

## Financial services market highlights



### DELIVERING CONTINUOUS GROWTH

In 2022-23, the UK's financial services industry produced £278Bn of economic output, 12 percent of the entire economic output, and nearly **2.5 million people** work in **financial and related services**.<sup>1</sup>



### LEADER IN CROSS-BORDER BANKING

The UK is the world's largest center for cross-border banking. It has **14 percent of the global** total of **cross-border lending**<sup>2</sup> and accounts for **38 percent of global foreign exchange trading**.



### INVESTMENT AND DEBT ISSUANCE

The UK is a major center for issuing and trading international bonds. It is the world's **largest center for international debt issuance**.<sup>3</sup> As of November 2023, the outstanding amount of loans made available by major banks to UK businesses was **£538.7Bn**.<sup>3</sup>



### LEADER IN PROMOTING SUSTAINABLE FINANCE

The UK is a global leader in sustainable finance and the most represented country across the Glasgow Financial Alliance for Net Zero (GFANZ). Total proceeds of **£10.5Bn** were raised in 2022-23 via a combination of **green gilt** and **savings bonds** issuance.

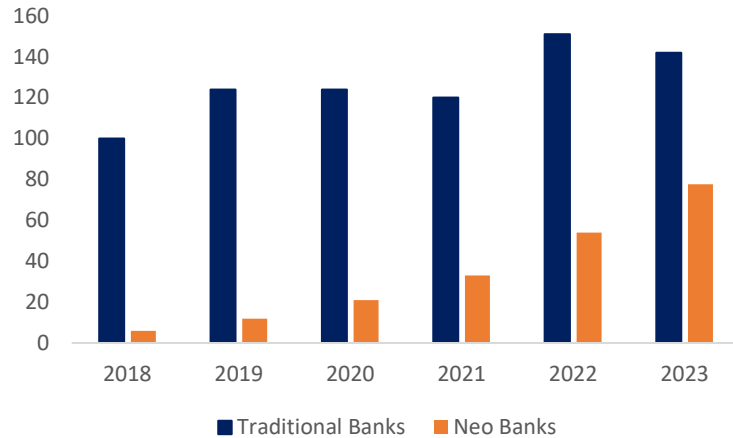


### EXPANDING FINTECH MARKET

With early open banking adoption, the UK is Europe's largest fintech ecosystem comprising **3,200 fintech firm headquarters**. The number of **UK fintechs** is **second to the US**, but three times more than Germany, France, and Singapore.<sup>4</sup>

# Key indicators across the UK banking sector

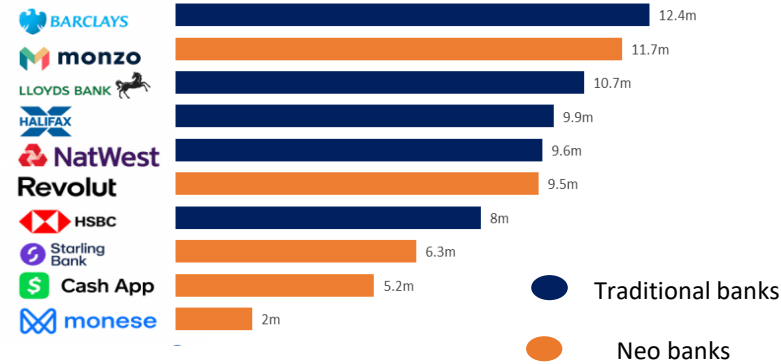
## Net interest income (£Bn)



UK banks continue to achieve higher profits despite macro headwinds. The NII surge seen in 2022 will continue through 2024.

## Digital banking

Total mobile app downloads as of June 1, 2023<sup>6</sup>



Neo banks are closing the gap with traditional banks in mobile app downloads. Listed neo banks have seen a CAGR of ~50 percent in app downloads over the last five years.

## UK payments outlook

Number of contactless payments<sup>8</sup> (in Bn)



13.1 17.0 18.3  
2021 2022 2023

Faster payments (value in £Mn)<sup>8</sup>

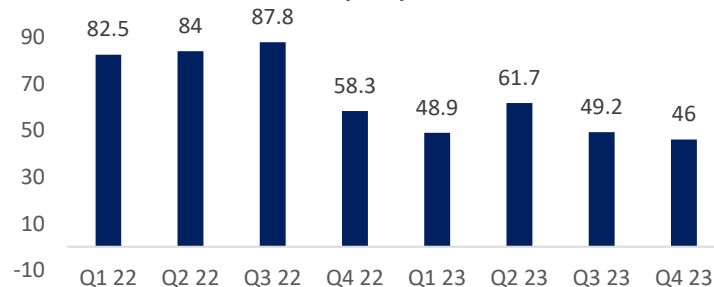


3,633 4,251 4,895  
2021 2022 2023

Faster payment continues to see robust y-o-y growth. There is significant adoption of contactless and digital payments.

## Mortgage lending

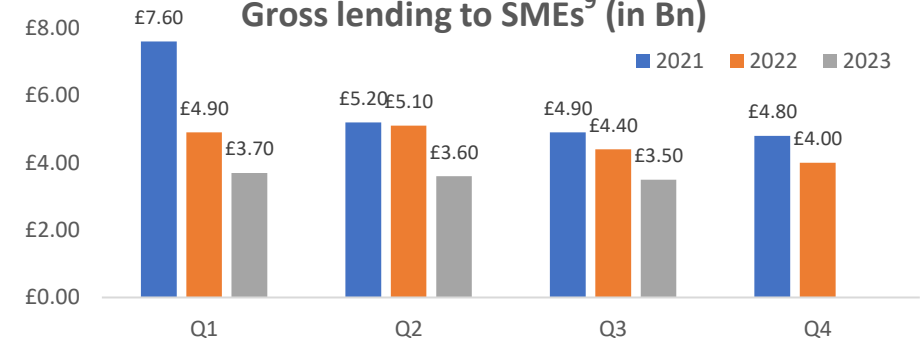
UK mortgage lending (new commitments)<sup>7</sup> (£Bn)



In FY23, higher interest rates and household costs decreased the value of new mortgage commitments compared to FY22.

## SME lending

Gross lending to SMEs<sup>9</sup> (in Bn)



There has been a downward trend in lending to SME businesses over the last two years, primarily because of high borrowing costs and market apprehension about the macroeconomic environment.

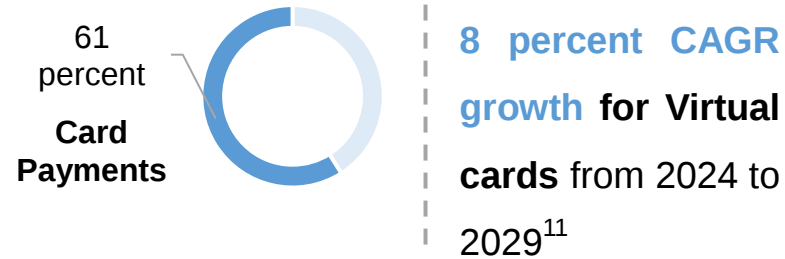


# 01 Reimagining Payments Strategy to regain Market Leadership

## UK Digital Payment Market Size



## Dominance of Cards



## Fall in P2P Payments via Bank Transfer



The UK was an undisputed leader in Open Banking, but it has started **falling behind in P2P payments made by bank transfer** (ranked 9<sup>th</sup> and predicted to fall to 17<sup>th</sup>).<sup>12</sup>

## Regulators led Innovation

Programs such as **Open Banking, NPA, and Digital Pound** are independently run with overlapping mandates and have lesser alignment on overall outcomes.

## Balancing Ease of payments Vs Fraud losses

A rebalancing of straight through & real-time payment processing with regulation for fraud losses, where payments are allowed to be held-up in case of fraud suspicion.

**Payments will break industry barriers and provide seamless and personalized experiences that empower industries and consumers in unprecedented ways.**

## Industry call to action

### Retain leadership with product innovation

With a global uptick in As-a-Service solution adoption, offering **Digital Cards as-a-Service or Virtual Cards** along with digital innovation products such as **contactless payments** to enable FIs to retain leadership in the Cards space.

### Unlocking agility - payment modernization and infrastructure refresh

Streamlining payment processes with payment **orchestration** and adoption of **API-first microservices-led** architecture utilizing the plug-and-play experience to unlock agility and drive payment modernization.

### Structuring dynamics of money movement

- Optimize **customer journeys** to enable seamless transactions with multiple product types, including **P2P and P2B** payment solutions.
- Reduce fraud and misdirected payments with the adoption of Confirmation of Payee (**CoP**).
- Adopt **ISO 20022** and **Real time monitoring and observability** to facilitate FIs with richer and clearly defined data-enhancing security and interoperability in transactions.

Stolen through digital fraud<sup>13</sup>

**£ 1.17 bn**

in 2023

**£1.21Bn**

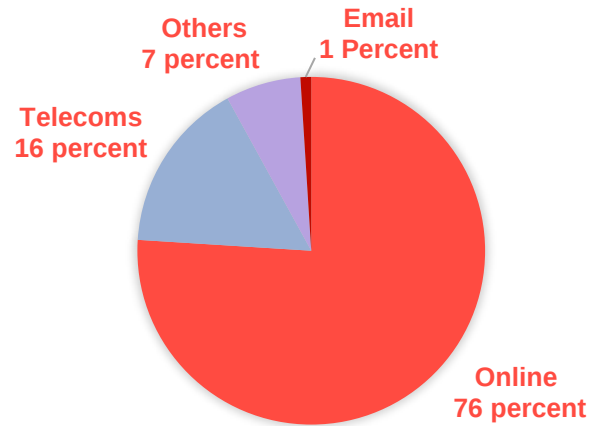
in 2022

Annual cost of  
financial crime  
compliance (FCC)<sup>14</sup>

**£34.2Bn**

in 2023

## APP fraud origination<sup>13</sup>



## Industry call to action

### Continuous threat monitoring with GenAI

Analyzing massive volumes of **data in real-time** by developing, training, and leveraging **GenAI-based LLM models focused on fraud detection for AML and KYC capabilities**.

### Growing relevance of Zero Trust Architecture

Prioritizing investment in **Zero-Trust Architecture (ZTA)** technologies such as **identity and access management (IAM)** and **MFA (biometric, missed call-based authentication)** to enable authorized individuals with access to sensitive data.

### Digital fortress with Tokenization

Adopting tokenization for an additional layer of security that complements E2E encryption with the help of token service providers and creates a digital fortress to deter hackers. The momentum for innovative solutions is growing.

## From the UK market



With nine UK banks, developed an AI-powered “consumer fraud risk” system that can predict if a transaction is part of an organized network of “mule” accounts.<sup>15</sup>



Created a “**security profile**” tool used by **3.1Mn users** on a mobile banking app that offers customers **tailored security features** and content designed to keep users safe.<sup>16</sup>

- Big banks such as **HSBC** and NatWest are prioritizing their fraud prevention strategies with the use of biometric security features.

## Revenue pressure on Banks

- In FY24-25, **bank revenues** will be under pressure as the central bank tackles inflation and deliberates on interest rate cuts.
  - Banks are struggling with macroeconomic volatility and increasing customer expectations.
  - Higher interest rates caused stress on businesses to manage their cash flows resulting in a weak environment for lending.
- ↓ **2.1 percent** lending to UK businesses (FY23)<sup>22</sup>  
**<1 percent** forecasted growth for FY24<sup>22</sup>

## Automation-driven efficiencies

Automating certain banking processes can act as a catalyst for agility and speed, empowering banks to re-engineer workflows and reduce GTM time.



NatWest

- Utilized low-code automation to automate 46 percent of data in its governance processes.
- Benefit achieved: Product governance, from 4.5 days to <20 minutes.<sup>23</sup>



LLOYDS BANK

- The first UK bank to unlock new trade efficiency benefits for its clients using **electronic Bills of Lading (eBLs)**.<sup>24</sup>

## Innovating to retain market share



NatWest

- New loans segment based on IP assets, e.g., loan to UK software company Sci-Net.<sup>25</sup>

Revolut

- RevTag (instant payment ecosystem), which helps improve cross-border payments, especially for small businesses & sole traders, won the UK Finder Innovation award.<sup>26</sup>

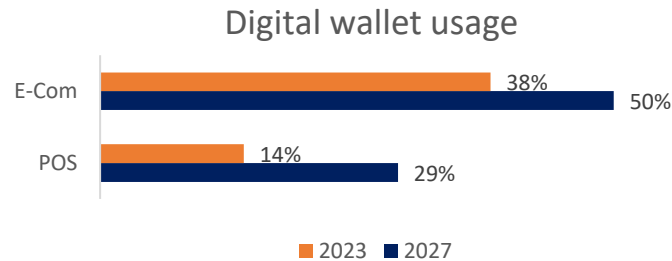
**Innovation** around client portal features such as **cash flow forecasting** and advanced data analytics can provide corporates with more insights and lucrative product offerings.

## Industry call to action

- Commercial banks need to find the balance between tackling macroeconomic uncertainties and deploying emerging technologies.
- Banks need to focus on services-based income by developing new product lines around value-added services.
- Banks with stronger advisory, innovation in product offerings, digital servicing capabilities, and efficient corporate banking franchises will have more room to grow their income.

## WALLETS

- Rapid wallet adoption: 38 percent of e-commerce transactions were wallet-based; 14 percent were POS-based.<sup>27</sup>



In the UK, partnerships across FIs and wallet products are creating strategic synergies.



partnered



**Wallet Express** aims to provide banks with an efficient way to expand digital wallet offerings.<sup>28</sup>

- Digital wallets provide investment opportunities to various asset classes with advanced features such as **trading, spending pattern analysis, personalized investment offers**, etc.
- Banks can **partner** with open wallet providers to extend services to customers and to deliver value beyond transactions to remain competitive.

## BNPL

- Consumers continue the use of BNPL which accounted for 7 percent of e-commerce transaction value.<sup>27</sup>

**Gross merchandise value of BNPL in the UK**

**£26.51Bn**  
in 2023

**£48.24Bn**  
Forecasted for 2029<sup>29</sup>

- BNPL spending is being driven by a wider social demography, as people across age groups and income ranges are adopting it.



To enable customers to split the cost of orders over £100 using the BNPL payment option.<sup>30</sup>



To launch its Pay Over Time as part of a global rollout of the offering.<sup>31</sup>

- Banks can have newer product offerings which include **Save Now Buy Later (SNBL), Travel Now Pay Later (TNPL)**, etc. to capitalize on the benefits around the BNPL attraction.
- With **MACH (Micro services, API first, Cloud native, and Headless)** principles-based white-label solutions, banks can offer embedded finance services like BNPL without the heavy lifting of customer onboarding, query resolution, etc.

Increasing adoption of embedded finance and upcoming regulations such as PSD3 are expected to provide a more favorable environment for increasing partnerships in the UK region, bringing more innovation in banking.

# 05 Next-gen Banking: Leveraging As-a-Service play

- Banks are modernizing their core platforms to strengthen operations and create new business partnerships.
- As part of this journey, banks are migrating their legacy systems to cloud-based platforms.
- Also, banks are modernizing their legacy applications with API-led infrastructure to synthesize real-time data processing.

- The UK market serves as a good playground for monetization through strategic partnerships to embed financial services into another sector.

- Banks must extend their channels via **third-party platforms (TPPs)**, **embedding** their own products and services in TPPs and ecosystems via APIs (BAAS, PAAS, BAAP, CAAS, etc.).

- The agility of cloud technology allows banks to develop **API-first microservices-led architecture to manage connections with partners, regulators, and different lines of business.**

- This transition from CAPEX to OPEX increases the opportunity for the banks to focus on innovation and customer services-based models such as
  - Platform-as-a-service (core engine)
  - Banking-as-a-service
  - Digital cards as-a-service
  - Data as-a-service



For working together and creating a banking-as-a-service (BaaS) business in the UK.<sup>35</sup>



Expanding its footprints by providing its technology platform engine to Romania-based Salt bank.<sup>36</sup>

Market size for BAAS  
(across the UK and Europe)<sup>32</sup>

**£75Bn to £88Bn** by 2030

UK core banking software market<sup>33</sup>

**16.5 percent** CAGR  
expected from 2023 to 2029

As per research, 91 percent of global banks and insurance companies have started their cloud journey, a significant increase in recent years.<sup>34</sup>



- As per a UK Finance survey, 70 percent of FS firms said they are at the pilot stage for GenAI using “co-pilot” type employee efficiency tools.<sup>17</sup>
- According to the McKinsey Global Institute (MGI), across all of banking, wholesale, and retail, GenAI could add **between \$200 billion and \$340 billion in value**.<sup>18</sup>
- The BOE and FCA's collaboration to explore AI regulation is expected to strengthen the UK's GenAI market.

- Although GenAI is still an emerging technology; in contrast to other major hypes (such as blockchain, P2P etc.), it's being embraced widely with investments across both large- or small-scale organizations.
- *Examples of how banks are leveraging GenAI to differentiate their services:*



**Chatbot Cora, with a human feel with GenAI, completed around 10.8Mn interactions.**<sup>19</sup>



Expanded digital advisory tool **myWealth suite** with AI to enable RMs to provide instant personalized portfolio construction.<sup>20</sup>



Launched NLP-based offering “**AI market.**” It allows users to generate financial market analytics with real-time and historic cross-asset data sets.<sup>21</sup>

- Banks need to focus on specific and realistic use cases, with emphasis on simulation or data observability, to leapfrog the competition despite all the hype about GenAI.

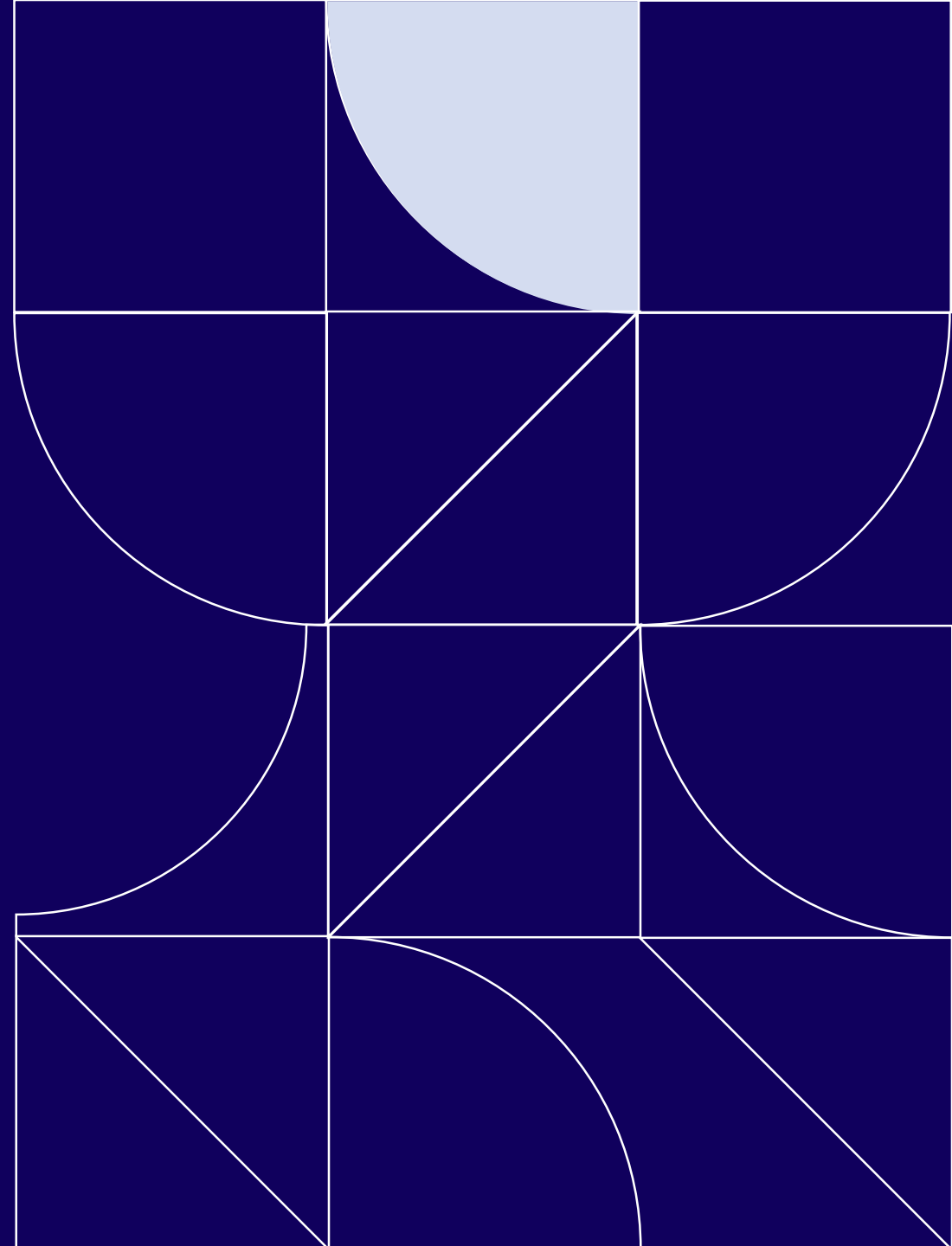
## GenAI focus areas

| Simulation                                         | Conversational AI                              |
|----------------------------------------------------|------------------------------------------------|
| Predictive analytics<br>Synthetic data             | Interactive chatbots<br>Virtual assistant      |
| GenAI                                              |                                                |
| Data observability                                 | Content discovery                              |
| Risk and fraud assessment<br>Document verification | Knowledge management<br>Personalized marketing |

- Banks can adopt **GenAI-based engineering solutions** to identify and unlock the full potential of use cases, address complex engineering challenges, and drive innovation securely.
- GenAI's ability to **synthesize vast amounts of data, detect intricate patterns and behaviors**, and adapt to evolving threats makes it a powerful tool that banks can leverage as a differentiator.

# Future Trends To Watch

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## Digital currency play

### Digital pound

- Currently, as part of its design phase, the Bank of England (BOE) is conducting experiments and proofs of concept (PoC) that are expected to run till 2025.<sup>32</sup>
- This will provide the basis for future decisions to introduce the digital pound.

### Stablecoins

- The regulatory framework by the BOE focuses on **sterling-denominated stablecoins** as it considers these are most likely, and suitable, to become widely used for retail payments.

### Tokenized deposits

- With blockchain networks, banks can offer custody services to convert traditional deposits into digital tokens, tradable in the digital economy. (**HSBC**, **Mastercard** are in the pilot stage).<sup>34</sup>

With central bank digital currencies still in development, it is believed that stablecoins and tokenized deposits can fill the gap.

## ESG in financial services

### London leads the market space

- London has been named the world's top center for green finance for the fifth time in a row.<sup>35</sup>
- There are 45+ mortgage products and £33Bn green loans.<sup>35</sup>

### Government involvement

- The UK High Court slammed the government's action plan and asked it to be more realistic to achieve its legally binding carbon budgets and pledge to cut emissions by more than two-thirds by 2030.

### Innovative solutions by firms

- NATWEST unveiled its carbon planner tool for SMBs to understand their carbon footprint better and identify ways to reduce it.<sup>36</sup>

Banks need to leverage a **data-driven sustainability approach** for building cloud data solutions such as integrated data platforms and data visualization tools.

## Active regulatory thrust

### Basel 3.1 framework

- This will be implemented in the UK by July 1, 2025.
- Reforms under this framework will bring significant changes in risk management and capital adequacy standards.<sup>37</sup>

### Payment Services Directive (PSD3)

- This will provide a wider choice of PSPs in the market with improved customer protection and data security.
- The UK is not formally bound to follow anything adopted by the EU via PSD3 but is likely to be under pressure to address similar areas.<sup>38</sup>

### New Payments Architecture (NPA)

- This will create a new clearing and settlement infrastructure based on ISO20022, making it the biggest shift in payment processing since 1960.
- Faster payments transactions will tentatively migrate to NPA in 2025-26, followed by BACS.<sup>39</sup>

As the economic outlook is uncertain, regulators will look to ensure the thrust toward an open, innovative regulatory regime with progressive initiatives.

This paper is published by the BFS Industry Solutions Group (ISG) at Zensar, presenting our view of the top banking and financial services trends in the UK market.

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