# UK banking sector faces major restructuring amid regulatory challenges



The UK banking sector is facing a fresh phase of disruption marked by significant restructuring and regulatory challenges. Recent developments include HSBC’s announcement to largely wind down its investment banking operations in the UK and other regions, while Lloyds Banking Group and Santander UK are both executing job cuts and closing hundreds of branches. Santander has also reportedly contemplated withdrawing from the British retail banking market entirely.

These shifts have sparked renewed scrutiny over the United Kingdom's appeal as a base for banking activities, coinciding with a broader trend of regulatory reconsiderations. In the years following the 2008 financial crisis, the UK government implemented robust regulatory measures aimed at safeguarding the financial system. However, current government priorities focus on economic growth through a reduction of regulatory burdens, mirroring similar deregulatory trends in other countries, notably the United States.

Rick Haythornthwaite, chair of NatWest (formerly Royal Bank of Scotland), highlighted this changing regulatory landscape in an interview with the Financial Times. He stated: “I think everybody agrees that high-quality regulation is a source of competitive advantage, and no one is looking to dismantle this into regulatory-light Britain again, and we are certainly not. But nevertheless, could the pendulum have been pulled over to the point where there is just excessive duplication, inefficiencies, and things that are really now unnecessary? Those are the right things to talk about.”

The UK’s banking rules remain among the strictest globally, reflecting the £200bn-plus financial services sector’s significance to the economy. Nonetheless, these stringent regulations have not prevented new regulatory controversies, exemplified by the recent car finance scandal wherein court rulings have condemned undisclosed commissions paid to car dealerships. The industry now awaits a Supreme Court ruling on the matter, as memories of the costly payment protection insurance (PPI) scandal persist.

Santander’s strategic reassessment of its UK retail presence has been partly driven by frustrations with post-crisis regulatory requirements, including the country's unique ringfencing rules. These rules mandate banks with more than £25bn in deposits (set to rise to £35bn) to separate their retail banking operations from investment banking activities. Such measures aim to protect consumers from risks associated with trading losses and systemic bailouts. However, major UK banks like NatWest and Lloyds have petitioned Chancellor Rachel Reeves to abolish ringfencing, arguing the regulations impose undue constraints.

Efforts to deconcentrate the banking market through the introduction of challenger banks have so far yielded limited results. Despite the Prudential Regulation Authority (PRA) issuing more than 40 new banking licences since 2013, the largest historic lenders—Lloyds, HSBC, NatWest, and Barclays—continue to control over 60% of UK deposits. Nigel Terrington, chief executive of Paragon Bank, commented on this dynamic, explaining: “The UK is a fantastic place to start a bank, but a difficult one to achieve scale, with no mid-tier bank as of yet coming close to truly challenging the status quo.”

The post-crisis regime has not substantially broken the dominance of these “Big Four” banks, though challenger banks and fintech companies have driven technological innovation and digitalisation in the sector. Challengers highlight that the regulatory environment is disproportionately complex, citing capital requirements such as the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) as a deterrent to growth. MREL requires banks over a certain size to maintain additional “bail-in” debt that can be converted or written down in crises, a costly obligation for smaller institutions. The Bank of England plans to adjust MREL thresholds to better differentiate smaller banks from the largest institutions.

Challenger banks have found relative success by focusing on lending to small and medium-sized enterprises (SMEs), a market segment largely abandoned by the largest banks since the crisis due to regulatory and risk-related factors. Richard Davies, chief executive of digital SME lender Allica, noted: “Over the past decade there has been a huge shift in SME finance to challenger providers alongside a retreat from the incumbent providers who focused increasingly on residential mortgage and corporate lending.”

Nonetheless, challenger banks have faced their challenges. Virgin Money, the largest among them, was acquired by building society Nationwide for £2.8bn last year. Other emerging lenders, like the Bank of London and Metro Bank, have confronted financial and reputational difficulties, including tax controversies and accounting scandals. Colombian billionaire Jaime Gilinski, now majority shareholder of Metro Bank, is overseeing restructuring efforts which include significant staff reductions and a strategic pivot towards specialised business lending and digital services.

The trend towards digital banking has coincided with an accelerating closure of physical branches. According to consumer group Which?, UK banks have shuttered over 6,000 branches in the past decade. Lloyds recently announced closures of 136 branches following a consolidation of its Halifax, Lloyds, and Bank of Scotland brands, while Santander is poised to close a fifth of its UK branch network, endangering 750 jobs. Santander has reported a 63% increase in digital transactions since 2019, with in-branch transactions falling by 61% over the same period.

On the investment banking front, UK-headquartered banks have retreated significantly since the financial crisis. HSBC’s January decision to exit investment banking in the UK, Europe, and the Americas was described by one senior US banker as “the culmination of 20 years of withdrawal.” Barclays had been expected to fill a competitive void in the sector following its acquisition of Lehman Brothers’ investment banking units after the 2008 collapse, but internal and investor pressures have led to fluctuating commitment to the unit. Current Barclays chief executive CS Venkatakrishnan has indicated a focus on more profitable business lines and a reluctance to increase risk-weighted assets on the investment banking book.

Contrastingly, US investment banks and boutique advisory firms have increased their European presence, benefiting from less restrictive regulations. Senior professionals in London note that US banks enforce stricter performance standards and have eroded the position of UK rivals. One senior US banker reflected: “The US takeover of investment banking in Europe has been happening for over a decade… now American banks have over-earned on European soil and that is what makes the case for consolidation.”

London itself has seen a marked contraction in capital markets activity. A report by consulting firm EY highlighted that 2024 witnessed only 18 company listings on the London market, the lowest number since at least 2010.

In response to these developments, UK banks are intensifying lobbying efforts for regulatory reforms, beginning with calls to roll back or eliminate ringfencing requirements. The Treasury emphasised the critical role of the banking sector in driving economic growth, stating: “The banking sector is critical to delivering our number one priority of economic growth. That’s why the Chancellor has set out a new approach to regulation that supports growth, instead of excessively focusing on risk.”

Rick Haythornthwaite of NatWest further underlined the banks’ regulatory aspirations, saying: “We’re looking for regulation that’s proportionate, consistent, predictable and those are all the right boxes to tick.”

These ongoing changes reflect a sector navigating complex economic, regulatory, and technological forces amid evolving strategic priorities.

Source: [Noah Wire Services](https://www.noahwire.com)

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