

# Operating Environment

Adapting to changes in our operating environment



## Climate agenda

### What we are seeing

- The climate agenda impacts all of our stakeholders and the decisions they make, and it guides our activities and operations as a business.
- With the change in government seen in the UK in July, clarity on the direction of travel and pace of change is elevating the focus on investments in green technologies.
- We recognise the important role we can play in helping people and businesses transition to a lower carbon future, as they invest in green assets including electric vehicles, renewables, grid infrastructure and energy efficiency.
- We need to support our stakeholders in making decisions by providing sufficient information on our climate strategy.
- Investors are increasingly taking ESG factors into consideration as part of their investment decisions and reporting standards require us to align our climate reporting to the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”).

### How we are responding

- Our group climate strategy, considering both our operational impacts and the implications across our financed activities, continues to develop.
- Under our climate commitment, aligned with the Net Zero Banking Alliance (“NZBA”), we have set out our initial sector-based intermediate 2030 emissions reduction pathway for our lending on road vehicles.
- Our Asset Management division has recently set out its sustainability strategy in its inaugural TCFD-aligned entity report including its initial proportion of assets under management to be managed in line with net zero.
- We have continued to address our operational emissions including office optimisation (balancing with hybrid working) and reaching the milestone this year of more than half of our car fleet being fully electric.

► [Read more about our climate commitments in our TCFD report on pages 35 to 47.](#)



## Regulatory environment

### What we are seeing

- The UK regulatory environment continues to see significant change.
- Operational and financial resilience, monitoring of material outsourcing and robust recovery and resolution planning continue to be priorities for the Prudential Regulation Authority (“PRA”).
- Prudential monitoring of regulated firms takes place on an ongoing basis through stress testing, capital and liquidity requirements, increasing regulatory data reporting requirements and regular supervisory meetings.
- The FCA’s Consumer Duty is leading to better customer outcomes in the market and has driven improvements in controls and arrangements in firms.
- The group has seen an increase in engagement with our regulatory bodies, for example with the FCA on market-wide reviews into historical discretionary commission arrangements in the motor finance sector and Borrowers in Financial Difficulty.
- The FCA continues to take steps to be a data-led regulator, including market-wide data requests and expansion of its Product Sales Data reporting requirements.
- The PRA Policy Statement PS 9/24 Implementation of the Basel 3.1 standards near-final part 2 was published on 12 September 2024, with an implementation date of 1 January 2026, six months later than previously anticipated. We expect the implementation of Basel 3.1 to have a less significant impact on the group’s capital headroom position than initially anticipated.

### How we are responding

- We continually monitor the landscape for regulatory change.
- We maintain an open and cooperative relationship with our regulatory bodies, including the FCA and PRA, who conduct regular monitoring of our position, including reviewing our stress testing of our liquidity and capital requirements.
- We have engaged constructively with our regulators in respect of historical discretionary commission arrangements in the motor finance sector.
- We have conducted a voluntary Past Business Review of customer forbearance related to our motor finance lending, with oversight from the FCA, as part of the FCA’s market-wide Borrowers in Financial Difficulty review.
- Further to the FCA’s Consumer Duty, we have conducted in-depth reviews across our businesses including a full review of requirements to implement Consumer Duty for books of business not open to new customers.
- We have recently completed our first Annual Assessment of Customer Outcomes, where the board is required to review and approve the assessment of delivering good customer outcomes.
- Our focus now is on continuing to embed Consumer Duty and staying abreast of new regulatory publications.



## Customer behaviour

### What we are seeing

- The expectations of customers continue to evolve, with experience across the end-to-end journey key to building loyalty.
- Customer service, clarity of communication, price and value of products, the ease of doing business and how customers feel about their experience are highly valued.
- Digital channels are perceived as the norm, particularly for straightforward interactions. Yet the human element continues to add value for customers and partners, strengthening long-term relationships and providing additional support.
- Customers seek to better understand their financial position; for example, in the motor finance market, consumers may research how much they can borrow and balance that against a vehicle that suits their needs.
- Customers are increasingly supporting the transition to net zero, with SME housebuilders making a significant contribution.

### How we are responding

- While we have a range of products, routes to market and customer segments, we focus on good customer outcomes, providing excellent service and building long-term relationships.
- We have provided greater self-service functionality for our personal savings customers such as through our online calculator for visibility of early closure fees. Enhancements are being made to ensure our online customer journeys are more accessible.
- Our Asset Finance business has developed a new technology portal which allows customers to update details, view existing agreements and apply for new finance.
- We have created a Writing for Customers Guide for Premium Finance and Motor Finance, with the average readability of our communications having improved by over 35%.
- Our Motor Finance partnership with online credit broker Zuto provides the customer with a decision in principle on their finance application, without a hard search on their credit profile.
- In Property, insights from our fourth State of Play Survey alongside our partners, the Home Builders Federation and Travis Perkins, help us better understand our customers' needs and priorities.



## Technology and digital adoption

### What we are seeing

- Technology is enhancing customer and employee journeys, for example through the widespread use of digital channels and self-service models, as well as to create efficiencies, such as through automating non-value-adding processes.
- The rate of technology change continues to advance, with an increased use of Artificial Intelligence ("AI"), automation and cloud-based infrastructure and applications.
- This increasing adoption of new technologies changes the cyber threat landscape and increases the need for continued investment in operational resilience.

### How we are responding

- The investment in our multi-year Asset Finance transformation programme has delivered seamless connectivity and visibility between sales, credit decisioning, origination, and billing and collections and has led to a better customer and colleague experience.
- Our technology transformation programme is focused on simplifying and modernising our technology estate, removing unnecessary cost and increasing our use of strategic partners, whilst creating a more digitally enabled, modern and agile IT environment that is secure, resilient and sustainable. We have partnered with Wipro, a leading technology services and consulting company, to help us drive our transformation.
- We continue to invest in exploring AI and developing robotics and have built automated solutions to assist in triaging new business imperatives whilst improving our processing speed and increasing operational efficiency.
- We continuously assess the maturity and effectiveness of our cyber security controls and make adjustments as necessary to address new threats. We have also completed a cyber incident exercise to enhance our readiness for any potential incidents. We will remain focused on enhancing our operational resilience across our business.



## Economic environment

### What we are seeing

- The market backdrop has been mixed this year. The economy has proved resilient, with a general improvement in macroeconomic indicators, low unemployment and strong wage growth. Nevertheless, uncertainty has persisted for both individuals and SMEs.
- Notwithstanding the reduction in the Bank of England base rate in August 2024 and the improvement in some economic indicators, headwinds remain, with interest rates at higher levels, inflation proving more persistent than expected and cost of living pressures continuing.
- The change in government seen in July 2024 is expected to lead to changes in policy which could have an impact on the UK's economic outlook.

### How we are responding

- We recognise the challenges affecting our customers and continue to monitor the potential impact of ongoing uncertainty closely, prudently assessing affordability across lending proposals and offering additional support to customers where needed.
- Our IFRS 9 models are regularly updated to reflect current economic scenarios and forecasts from Moody's, with adjustments overlaid where needed to recognise additional risk not captured by the model.
- We continue to be there for our customers, lending to them on responsible terms and consistently applying our prudent underwriting and pricing discipline.



## Competitive landscape

### What we are seeing

- In Banking, borrower confidence remains mixed, with higher funding costs and the uncertain economic outlook weighing on market sentiment.
- We have seen a number of mergers and larger acquisitions in the banking sector in recent months. We expect this trend of consolidation to extend into the smaller and mid-market sector.
- The motor finance sector continues to be impacted in the short term by the ongoing FCA review of historical motor finance commission arrangements.
- The savings market remains highly competitive, with a number of new entrants in recent years and more interest being paid by high street banks, both from rising interest rates and from the FCA's market activities focusing on fair value.
- In the wealth management industry, consolidation remains a key theme, while Consumer Duty and FCA market-wide activities relating to fair value continue to be a major focus.
- Continued difficult market conditions have led to challenges for market makers and brokers, with a focus on managing costs and diversifying revenue streams.

### How we are responding

- In Banking, we remain committed to our model of maintaining margin and underwriting discipline, notwithstanding competitor pricing. We continue to focus on delivering excellent client service and building deep relationships with our customers.
- Despite the current uncertainty, we continue to see growth opportunities as we look to extend our capabilities into new areas that fit with our model, either through partnerships or bringing in specialist teams to complement our expertise.
- Our Savings business has expanded its retail customer proposition to include an Easy Access Account, which constitutes a large proportion of the potential deposit pool. We carefully monitor pricing to help maximise opportunities, whilst ensuring fair outcomes for consumers.
- To realise the potential value of CBAM in the medium-term to the fullest extent possible, the group would need to continue to invest to accelerate the business' growth strategy in the short and medium term, including via acquisitions against a consolidating market backdrop. Following a comprehensive strategic review, the group announced that it entered into an agreement to sell CBAM to Oaktree on 19 September 2024.
- In Winterflood, we continue to diversify our revenue streams and explore growth opportunities, including WRAP (Winterflood Retail Access Platform) which provides retail investors access to primary and secondary fundraisings, including new gilt auctions, through their existing retail broker or wealth manager. Also, through WBS, which has helped to balance the cyclical nature seen in the trading business.

► [Read more about the opportunities across our businesses on pages 63 to 73](#)