

## PRESS RELEASE

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### Threat of recession contains risk of further bank failures

#### 'Banana Skins' poll identifies top threats to banks

The risk of another global recession and a renewed banking crisis is high according to a new survey of the dangers currently facing the world's banking industry.

The CSFI's annual Banking Banana Skins survey, produced in association with PwC, puts macro-economic risk at the top of the list of 30 possible risks to banks. The poll is based on responses from more than 700 bankers, banking regulators and close observers of the banking industry in 58 countries.

The poll also shows that anxiety about the outlook for banks is at its highest level since the survey was started 13 years ago. Many respondents expect to see further bank failures and nationalisations.

The main cause of anxiety is the eurozone crisis which contains the threat of sovereign default by several countries. The shock of a euro collapse would hit banks not just in Europe but in all major regions of the world. Bankers in countries as wide apart as the US, Canada, China, Argentina and Australia put the euro crisis at the top of their list of concerns.

The first consequence of a crash would be large credit losses, which appear at No. 2 on the list. But these would be followed by a funding crisis with banks cut off from access to liquidity and fresh capital (No. 3 and 4).

Complicating the picture is the increase in political interference (5) and regulation (6) of the banking industry. Although regulatory initiatives are intended to bring

#### Banking Banana Skins 2012

(2010 ranking in brackets)

- 1 Macro-economic risk (4)
- 2 Credit risk (2)
- 3 Liquidity (5)
- 4 Capital availability (6)
- 5 Political interference (1)
- 6 Regulation (3)
- 7 Profitability (-)
- 8 Derivatives (7)
- 9 Corporate governance (12)
- 10 Quality of risk management (8)
- 11 Pricing of risk (9)
- 12 Business continuation (21)
- 13 Back office (24)
- 14 Management incentives (16)
- 15 Change management (28)
- 16 Hedge funds (19)
- 17 Interest rates (14)
- 18 High dependence on technology (18)
- 19 Currencies (11)
- 20 Business practices (22)
- 21 Equity markets (10)
- 22 Emerging markets (17)
- 23 Rogue trader (20)
- 24 Criminality (27)
- 25 Sustainability (25)
- 26 Commodities (13)
- 27 Fraud (15)
- 28 Human resources (-)
- 29 Reliance on third parties (-)
- 30 Payment systems (26)

about a solution to the banking crisis, they are also adding cost and distraction to banks, and making it harder for them to supply credit to the economy.

Concern about the ability of banks to manage their way out of the crisis is also high: weakness in corporate governance (9) and risk management (10) are both seen as Top Ten risks. A fast-rising risk is business continuation (up from No. 21 to No. 12), i.e. the ability of the banking system to survive the failure of a major financial institution.

“The picture painted by this survey is very bleak,” said David Lascelles, the survey’s editor. “It shows a fragile banking system beset by major threats and uncertainties.”

Andrew Gray, banking partner at PwC, said: “Banks are clearly worried about the dangers posed by continued turmoil in the eurozone, the threat of a further credit squeeze and uncertainty created by continued regulatory changes.

“Against this backdrop many banks will struggle to generate adequate returns across their business. Banks will be forced to reshape their businesses and further job losses across the sector seem inevitable as banks seek to drive down costs.”

For the first time, the Banana Skins survey shows the risk outlook to be better in the emerging economies than in the industrialised world. Respondents from regions such as Latin America, Africa, Asia and the Far East ranked their prospects more positively than North America and Europe thanks to stronger growth, though they felt vulnerable to global banking shocks. However, the survey also showed mounting concern about the prospects for China as its economy slows and its banks face growing pressures.

**Banking Banana Skins 2012** is available (£25, \$45, €35) from CSFI, 5 Derby Street, London W1J 7AB. +44 (0)20 7493 0173. [info@csfi.org.uk](mailto:info@csfi.org.uk)

## **NOTES TO EDITORS**

The CSFI’s “Banana Skins” series provides periodic snapshots of the risk landscape in the financial services sector. As well as the banking series, the CSFI conducts surveys of the risks in insurance and microfinance.

**The Centre for the Study of Financial Innovation** is an independent not-for-profit think tank based in London which researches the future of financial services. It has an affiliate in New York, New York CSFI. The CSFI has been producing regular Banana Skins surveys since 1995. [www.csfi.org.uk](http://www.csfi.org.uk)

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