

PRESS RELEASE

Tuesday 8 December 2015

GLOBAL BANKING SYSTEM AT RISK FROM FAILURE OF ECONOMIC RECOVERY

'Banana Skins' poll identifies top threats to banks

Concern about possible failure of the global economic recovery and the damage this would do to a still fragile banking system is growing, reveal findings from a survey on global banking risk, unveiled today at the annual risk management conference, RiskMinds 2015, taking place in Amsterdam.

Results from the CSFI's latest global annual survey, conducted in association with PwC, '[Banking Banana Skins 2015](#)', puts concern about the macro-economic environment at the top of the list of 24 possible risks to banks, knocking excessive regulation, long a high-ranking risk in this survey, from top spot last year to no.3.

The poll is based on responses from more than 670 bankers, banking regulators and close observers of the banking industry in 52 countries.

Concern about economic risk is driven by the high level of debt that prevails in most parts of the world, by weaker growth in the developing world and by the uncertain state of interest rates. All these could severely impact a banking system where leverage, though improving, is still at worrying levels.

A senior banking supervisor said: "Higher indebtedness brings greater financial fragility. Regulators and banks have made some progress in reducing leverage in the banking sector. But it remains high nonetheless. And the increasing indebtedness of borrowers leaves banks vulnerable in the face of economic shocks."

Banking Banana Skins 2015

(2014 ranking in brackets)

- 1 Macro-economic environment (3)
- 2 Criminality (9)
- 3 Regulation (1)
- 4 Technology risk (4)
- 5 Political interference (2)
- 6 Quality of risk management (11)
- 7 Credit risk (7)
- 8 Conduct practices (16)
- 9 Pricing of risk (6)
- 10 Business model (-)
- 11 Social media (19)
- 12 Reputation (-)
- 13 Capital availability (10)
- 14 Interest rates (12)
- 15 Emerging markets (17)
- 16 Shadow banking (20)
- 17 Currency (22)
- 18 Liquidity (15)
- 19 Corporate governance (8)
- 20 Management incentives (21)
- 21 Derivatives (18)
- 22 Human resources (23)
- 23 Reliance on third parties (24)
- 24 Sustainability (25)

Source: CSFI (Banking Banana Skins 2015)

Cyber crime concern surges

Banks are also highly vulnerable to the growth in financial crime, particularly cyber crime, which has surged as a concern from the No. 9 position last year to No. 2 this year. This is also a global concern as cyber criminals target the weak links in a closely interwoven worldwide banking system. The ability of banks to manage the growth in crime is also under question, as shown by strong concern about the quality of their technology (No. 4) and of their risk management systems (No.6).

Another fast-rising concern is over the banks' business conduct practices (from No. 16 to No. 8), because of what is perceived to be the banks' failure to achieve sufficient "culture change" in the management of their business practices despite strong regulatory pressure and heavy fines.

Notable risers - emerging markets and shadow banking

Two notable risers are emerging markets (up from No. 17 to No. 15) where concern focuses on the prospects for China and the impact of weak commodity prices on a string of dependent economies, and shadow banking (up from No. 20 to No. 16), the unregulated para-financial sector, whose growth is seen to be fuelled by excessive regulation of mainstream suppliers.

On the other hand, the risk of political interference in banking is seen to be declining (down from No. 2 last year to No. 5); also, excessive regulation, long a high-ranking risk in this survey, slipped from the top position last year to No. 3. Both these changes suggest that the post-crisis crackdown on the banks may be receding. The most threatening riser in this area is social media (up from No. 19 to No. 11) with its power to damage bank reputations with or without sound evidence.

The poll shows that concerns expressed in earlier surveys about capital availability, liquidity and exotic products in the banking system have eased noticeably.

State of the global economy of concern in all geographic regions

A breakdown of responses shows that all major respondent types (bankers, risk managers and observers) are strongly concerned about the state of the global economy. Economic concerns are also strong in all geographic regions, though they came second in North America where American and Canadian respondents focused primarily on the risks of cyber crime.

"These results show that many people fear that the economic recovery will fail and cause severe damage to the banking system. This is a worrying prospect," said David Lascelles, the survey's editor.

Global Financial Services Risk Leader, Dominic Nixon, PwC, said:

"Although much work has been done by banks and their regulators to strengthen risk controls, banks still have more to do to address the scale of risk and its ever changing nature. The survey shows a fairly strong global consensus that the

main threats to banking safety come from areas such as criminality, which has shot up the rankings quite dramatically, technology risk, and conduct practices.

Also of note is the business model which has not previously featured. The fact that it comes in the top ten overall, and has ranked consistently high across every region we surveyed, shows it is receiving a lot of thought.”

ENDS

Notes to Editors:

1. For further information, contact:

Krishna Rao
PwC
T: +44 (0)20 7804 3765
E: krishna.c.rao@uk.pwc.com

David Lascelles
CSFI
T: +44 (0)20 7621 1056 or +44 (0)7710 088658
E: david@avidlascelles.com

2. The [Banking Banana Skins 2015](#) survey was conducted in September and October 2015 and is based on 672 responses from 52 countries. The breakdown by type of respondent was:

	%
Bankers	37
Risk Managers and Regulators	25
Observers	38

3. The survey is the latest in the CSFI’s long-running Banana Skins series which provides regular snapshots of the risk landscape in the financial services sector. The report can be downloaded from PwC’s website: www.pwc.com/bankingbananaskins
4. The CSFI (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. www.csfi.org.uk
5. At PwC, our purpose is to build trust in society and solve important problems. We’re a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.