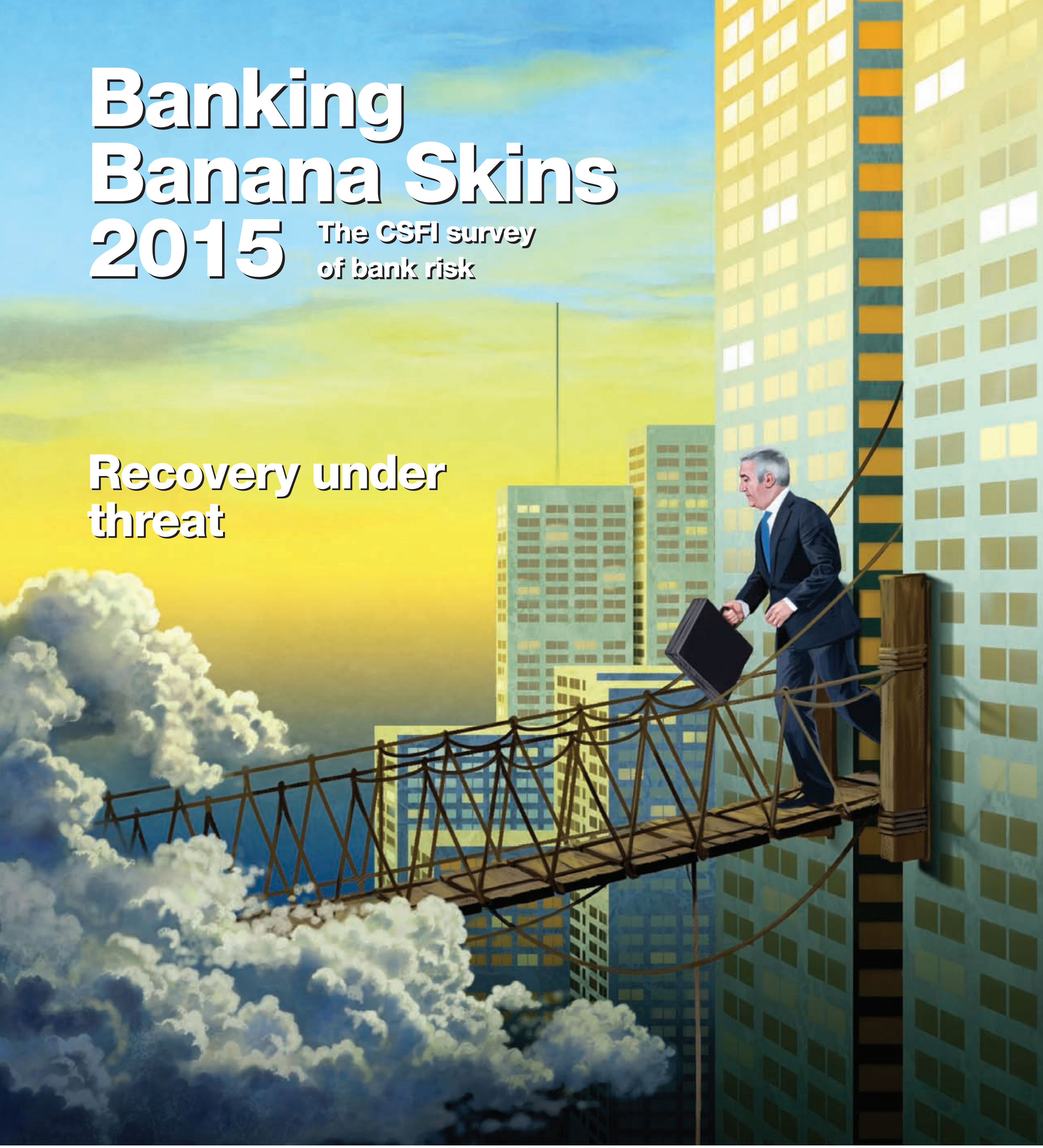
Banking Banana Skins 2015

The CSFI survey of bank risk

Recovery under threat



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Preface

First of all, the CSFI must thank PwC for its continuing support of our Banana Skins reports (both banking and insurance). This is the twelfth in a series of Banking Banana Skins that goes back to 1996 – when "poor management", "EMU turbulence" and "rogue trader" vied for top spot. We appreciate the financial help that PwC provides – and also the wider distribution of the questionnaire through its own global network. Equally, we also appreciate the fact that PwC lets the chips fall where they may; the results (and the editorialising) are strictly the responsibility of the CSFI.

Second, my thanks must go to the two authors – David Lascelles (the CSFI's Senior Fellow and the Centre's co-founder) and Keyur Patel. BBS is a major piece of work, and I am grateful for all the time, effort and judgement they put into it.

That said, I find this year's results more puzzling than usual – particularly the finding that the top risk is the "macro-economic environment" (which is actually seen as a bigger threat than the top risk in 2014).

True, there has been a great deal of attention recently on China's economic slowdown – but that is not new. And the US/UK recovery, in particular, seems to be consolidating. I surmise that (although we were very clear as to what we meant by the individual risks we identified) there was a fair amount of conflation in respondents' minds – the 'macroeconomic environment' with 'credit risk', 'risk pricing' and 'interest rates', for instance. Equally, my guess is that, for many respondents, 'criminality' and 'technology risk' overlapped – which would make cyber risk an even more pressing concern than this year's report suggests it is.

The point is that, throughout this year's survey, there are highly suggestive findings that one can plausibly agree or disagree with. I am (for instance) surprised that, in a regulatory world dominated by the demands of TLAC, respondents are so relaxed about capital availability. I am also somewhat surprised that concerns over regulation fell this year (albeit only to No 3), when signs of regulatory 'herding' (ie a lack of diversity) abound and when banks still face massive financial retribution for their post-2007/08 sins.

But that's what the BBS survey is all about. You don't have to agree – or to believe in the salience of the risk landscape exactly as painted by respondents. Rather, BBS is intended to make the reader stop and think – and, perhaps, to adjust his or her behaviour accordingly. By itself it won't protect against a banking crisis, but it can – at least – provoke a discussion that might protect an individual institution from leaping over the cliff with the rest of the lemmings.

Andrew Hilton
Director
CSFI

Sponsor’s foreword

Welcome to *Banking Banana Skins 2015*, a unique survey of the risks facing the industry, which has been produced by the CSFI in association with PwC.

We are delighted to continue our support for this initiative. The *Banana Skins* reports provide highly regarded insight to the changing risk concerns of boards and senior management, and how these perceptions change over time. Many of you will be comparing the industry-wide findings against your own assessment of the current and emerging risk environment.

The banking industry is under attack from many angles, not just from traditional risks but also new uncertainties. It is not surprising that in 2015, uncertainties in the macro-economic environment have risen to be the top risk, rising from No. 3 in 2014. Despite prudential reforms, banks remain vulnerable to high debt levels, future interest rates, weakness in China and other emerging markets, and softening commodity prices. Lower growth rates, together with regulatory reforms will put pressure on banks to manage returns.

The sharpest rise in concern in 2015 was about criminality (including the risks to banks in areas such as money laundering, tax evasion and cyber attack) which rose from No. 9 in 2014 to No. 2 in 2015. This risk coupled with continued concern on technology risk (No. 4) where underinvestment and obsolescence, as well as the boom in new “fintech” present major challenges to banks.

Criminality and technology risk are becoming increasingly concerns of banks given the rise in new competitors who are challenging traditional ways of doing things and operate using more nimble systems and lower overheads. Traditional bank earnings models are starting to be threatened as these competitors chip away at many traditional way of doing things. To help them improve margins, banks are experimenting with new industry models which leverage on technology and focus more on customer centricity and less on products; however this could expose them to even higher risks in the areas of cyber crime and financial terrorism.

Not surprising, regulation remains the No. 3 Banana Skin for banks in 2015. Whilst banks recognise the need for tougher controls, many question their cost and effectiveness. Banks are not only bearing the direct costs of regulation – new capital and liquidity requirements, restructuring costs, the impact of market conduct requirements (including potential regulatory fines), higher costs of compliance, and higher costs of customer acquisition; but also the cost of greater management time to re-engineer processes, change culture and increase compliance efficiency. Industry margins are being impacted.

We would like to thank all the participants in the survey for sharing their valuable insights and thank the CSFI for the richness of insight and perceptive comment in this report. I trust you find Banking Banana Skins 2015 useful and thought-provoking. If you have any feedback or would like to discuss any of the issues raised in more detail, please do not hesitate to contact me.

Dominic Nixon
Global FS Risk Leader, PwC Singapore
dominic.nixon@sg.pwc.com

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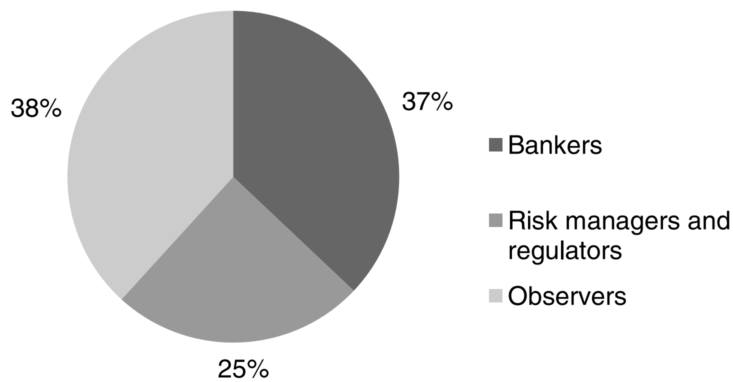
This report was written by **David Lascelles** and **Keyur Patel**

About this survey

This survey describes the risks currently facing the global banking industry, as seen by a wide range of bankers, banking regulators and close observers of the banking scene around the world. The survey was carried out in September and October 2015, and received 672 responses from individuals in 52 countries. The questionnaire was in three parts. In the first, respondents were asked to describe, in their own words, their main concerns about the financial system over the next 2-3 years. In the second, they were asked to score a list of potential risks, or Banana Skins, selected by a CSFI/PwC panel. In the third, they were asked to rate the preparedness of financial institutions to handle the risks they identified. Replies were confidential, but respondents could choose to be named.

The breakdown of respondents by type was:



The breakdown by countries was as follows:

Argentina	1	Hong Kong	14	Portugal	8
Australia	13	India	5	Russia	12
Austria	2	Indonesia	19	Saudi Arabia	2
Azerbaijan	4	Iran	2	Singapore	23
Belgium	24	Ireland	2	Slovakia	11
Brazil	30	Italy	1	South Africa	14
Canada	34	Japan	5	Spain	3
Cayman Islands	11	Luxembourg	28	Sweden	3
China	34	Malaysia	12	Switzerland	2
Croatia	7	Malta	1	Taiwan	2
Cyprus	1	Mexico	40	Thailand	3
Czech Republic	5	Netherlands	9	Turkey	74
Denmark	1	New Zealand	25	Uganda	1
Dominican Rep.	1	Nigeria	12	UK	113
France	4	Panama	1	UAE	1
Germany	5	Peru	8	Uruguay	1
Greece	7	Philippines	4	USA	20
		Poland	7		

Summary

This report describes the risk outlook for the banking industry in the final quarter of 2015 – a time when the global economy and its banking system were in the advanced stages of recovery from the financial crisis, but when concerns were growing about the strength of that recovery.

Failure of the global recovery is the greatest risk

The findings are based on responses from 672 bankers, regulators and close observers of the banking scene in 52 countries. In the opinion of these respondents, the greatest threat to the banking industry lies in **the possibility that economic recovery will fail** because of the huge - and in many cases rising - weight of debt in all the main sectors: sovereign, corporate and consumer. There are also strong concerns about economic weakness in developing economies, and uncertainty surrounding central banks' monetary policies.

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."

Given such views, one of the strongest risks is concern about the **quality of banks' risk management,** which rose from No. 11 in 2014 to No. 6 in this survey. Although much work has been done by banks and their regulators to strengthen risk controls, there is a sense that banks have still not adequately addressed not just the scale of risk but also its changing nature.

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)

The changing nature of risk is summed up by the sharp rise in concern about **criminality** (up from No. 9 to No. 2), chiefly because of the alarming spread of cyber-crime in an increasingly borderless market, particularly data theft. This is closely associated with **technology risk** (No. 4) where underinvestment and obsolescence, and banks' growing exposure to competition from "fintech" companies, now present major challenges.

Another strong riser in the area of risk management is **conduct practices** (up from No. 16 to No. 8) because of what is perceived to be the banks' failure to achieve “culture change” in the management of their business practices despite strong regulatory pressure and heavy fines. One banker described unethical business practices as a “perennial risk [which] won’t go away as we make money out of people who don't pay money back”.

Even so, **reputation risk** did not rank as high as might be expected (No. 12) because of the view that this is one risk to which there is little downside. **Political interference** in banking is seen to be declining (down from No. 2 last year to No. 5) and **excessive regulation**, long a high-ranking risk, slipped from the top position last year to No. 3. 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.

Central banks will make sure banks have enough liquidity

A number of risks which were associated with the financial crisis have continued to recede. Among them are the **pricing of risk** (i.e. aggressive under-pricing to achieve competitive advantage) which went down from No. 6 to No. 9, the **availability of capital** to strengthen bank balance sheets (down from No. 10 to No. 13), and **liquidity risk** (down from No.15 to No. 18) because of the commitment by central banks to keep funding markets afloat. **Interest rate risk** was also low at No. 14 despite the long anticipated end to quantitative easing: banks have had plenty of time to prepare for it, though it will be a first time experience for the industry and its impact cannot be predicted with any certainty.

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 (and therefore potentially dangerous) para-financial sector whose growth is seen to be fuelled by excessive regulation of mainstream suppliers.

Institutional risks to banks show a mixed trend. The good news is that the risk of poor **corporate governance** has fallen sharply from No. 8 to No. 19 following recent improvements, though there is a thread of concern that boards may no longer be physically capable of staying on top of issues in their increasingly complex and fast-moving institutions. The bad news is that concern is rising over the **viability of bank business models** (No. 10) when changing structures, technologies and markets demand constant adaptation.

Worthy of comment among the very low ranked risks is **sustainability**, or environment-associated risk, at No. 24. Although a number of respondents saw a connection between banks and their potentially exposed clients here, the broad perception is that banks have little to fear from environmental threats, and would, in any case, be able to adapt.

Concern about the quality of banks' risk management is rising

Risers and fallers

The dramatic changes in the global banking industry are reflected in equally sharp shifts in risk perceptions. Here is a selection of risks whose ranking has altered markedly since 2014.

RISING RISKS

Macro-economic environment: fears about the strength of the recovery
Criminality: alarming rise in cyber crime and fraud.
Conduct practices: lack of "culture change" in banks may be perpetuating bad old ways.
Social media: the rising threat to bank reputations from popular electronic networks.

FALLING RISKS

Corporate governance: much work has been done to improve the way banks are run.
Pricing of risk: A lull in "silly pricing" which may, however, be temporary.
Capital availability: Plenty of capital available, particularly for those who don't need it.
Liquidity: Central banks will ensure there are no funding crises.

Types of response

A breakdown of responses by **type** shows that all major respondent groups (bankers, observers and risk managers) are strongly concerned about the state of the global economy and regulatory excess. Important points of difference come in their attitudes towards institutional risk. Non-banker respondents generally believe that banks are more vulnerable to operational risks such as criminality, technology, conduct practices and reputation than the bankers themselves where the focus is more on external pressures, such as political interference.

A breakdown of responses by **region** shows that the macro-economic outlook dominates concerns around the world, except in North America where it ranks No. 2, possibly because of the stronger recovery in the US. The rising risks from criminality were the North Americans' top concern, and also ranked high in other regions. Otherwise there was a fairly strong global consensus that the main threats to banking safety come from areas such as technology risk, credit risk and conduct practices.

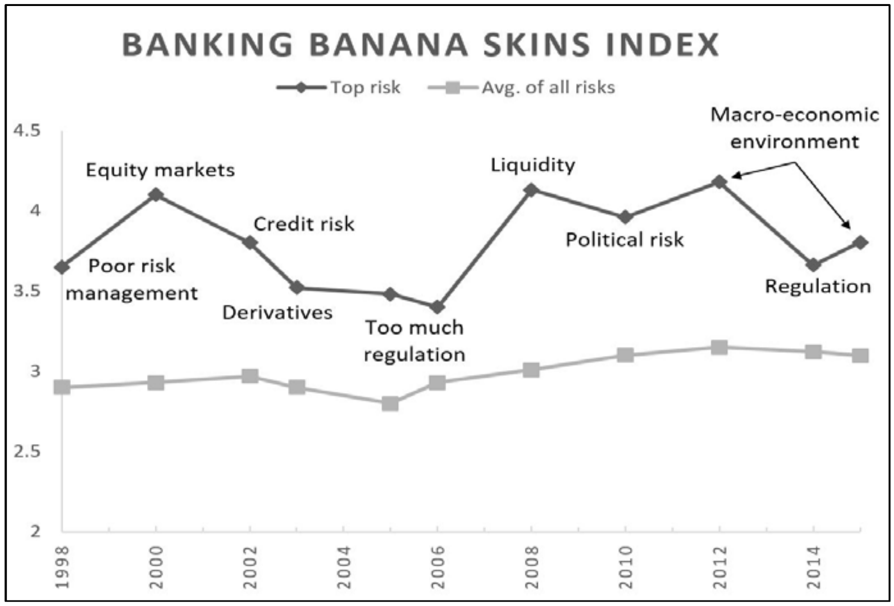
Preparedness

We asked respondents how well prepared they thought banks were to deal with the risks identified by the survey on a scale where 5=well prepared and 1=poorly prepared. The result was 3.13, slightly better than the 3.04 scored in 2014, and continuing a rising trend since the peak of the financial crisis. Bankers rated their preparedness higher than non-bankers. Geographically perceptions of preparedness were strongest in the Far East Pacific followed by North America and Europe.

'Anxiety Index' continues to improve

Banana Skins Index

The Banana Skins Index tracks survey responses over time and can be read as an indicator of changing anxiety levels. The upper line shows the average score (out of five) given to the top risk, and the bottom line shows the average of all the risks. This year, the top risk - macro-economic risk - has risen, but the overall trend, as shown by the average of all the risks, extends the downward path it began in 2014. However overall anxiety is still higher than pre-crisis.



A closer look at the numbers

In our Banana Skins survey, respondents score each risk from 1-5, where 5 is the most severe. A detailed breakdown of the ratings is revealing (see Appendix 1). We found:

- **Anxiety is growing at the top of the rankings but receding elsewhere.** The top cluster of risks this year were seen as more severe than in 2014 but from No. 5 downwards the reverse is true – which suggests that outside the main threats to the industry, the picture is improving.

- **A regional breakdown reveals the same average level of anxiety about risks, but widely different preparedness.** Respondents from the Far East Pacific were much more optimistic about their ability to face these risks than those from Europe, with North America in between.

- **The outlook of risk managers is now closer to observers than bankers**, both in terms of the severity of risks faced and the industry's ability to deal with them. In 2014 risk managers were more closely aligned with practitioners.

- **Bankers and observers disagree most about the severity of operating and governance risks,** the former group being much less anxious than the latter about threats that individual institutions have more influence over. Risk managers tended to fall in between.

Who said what

A breakdown of responses by type and geography shows important differences in risk perceptions.

Are bankers under-playing conduct of business risk?

Bankers – commercial and investment bankers

1. Macro-economic envt.
2. Regulation
3. Political interference
4. Criminality
5. Technology risk
6. Credit risk
7. Capital availability
8. Pricing of risk
9. Quality of risk mgt.
10. Reputation

Bankers see the uncertain economic outlook as the biggest threat to their prospects. But they continue to worry about risks that have dominated their thinking since the peak of the crisis, those of excessive regulation and political interference. Reputation risk is also high for them. They are increasingly concerned about rising cyber crime and the need to stay on top of technology changes. They recognise that the quality of their risk management needs improvement. A notable absentee from the top ten is conduct of business risk which came No. 8 overall.

Observers – analysts, consultants, academics, service

1. Macro-economic envt.
2. Criminality
3. Regulation
4. Technology risk
5. Conduct practices
6. Quality of risk mgt.
7. Political interference
8. Reputation
9. Business model
10. Social media

Observers of the banking industry took a strikingly different view of the risk outlook from bankers. While they shared bankers' top concerns with the macro-economy, they placed a number of risks at a higher level, including criminality, technology, conduct practices, quality of risk management, reputation and the viability of banking models. These are all close-to-home risks which outsiders to the business may find easier to evaluate.

Risk managers – people who work in risk management, including regulators

1. Macro-economic envt.
2. Regulation
3. Criminality
4. Technology risk
5. Credit risk
6. Conduct practices
7. Political interference
8. Quality of risk mgt.
9. Pricing of risk
10. Interest rates

People in the business of risk management shared the general concern about the macro-economic outlook, and the possibly damaging effect of excessive regulation. But most of the risks on their top list are ones which are within the banks' capacity to control: criminality, technology, credit, the pricing of risk and conduct practices, even the quality of risk management itself. Of all the major respondent categories, they were the most concerned about the future path of interest rates

Europe

1. Macro-economic envt.
2. Regulation
3. Criminality
4. Political interference
5. Technology risk
6. Reputation
7. Pricing of risk
8. Conduct practices
9. Capital availability
10. Business model

Having contributed almost half of this year's responses, Europe's rankings largely mirrored the global results. Economic uncertainty, especially in the eurozone, led the list of concerns, but was closely followed by higher than average anxiety about public environment risks: regulation, political interference and reputation. The related risks around criminality and technology also featured prominently.

Far East Pacific

1. Macro-economic envt.
2. Technology risk
3. Criminality
4. Credit risk
5. Conduct practices
6. Quality of risk mgt.
7. Regulation
8. Social media
9. Capital availability
10. Interest rates

The weakness of China and concerns about the future of quantitative easing meant the macro-economic environment was by some distance viewed as the biggest risk in the Far East Pacific area. This was also the only region to have interest rates in its top ten. Technology was another notable threat, including cybercrime and social media, while conduct practices ranked higher than average. But there was less emphasis on public environment risks, including regulation.

Criminality tops concerns in North America

North America

1. Criminality
2. Macro-economic envt.
3. Regulation
4. Technology risk
5. Political interference
6. Social media
7. Reputation
8. Business model
9. Shadow banking
10. Conduct practices

The perceived threat of cybercrime dominated the view in North America, coming ahead of concerns about the macro-economy, possibly because of the strength of the US recovery. There was also an emphasis on competition from non-traditional entrants to the banking sector, with the risks around technology, business models and shadow banking all making the top ten. On the other hand, risks related to governance were rated lower than the global average.

Preparedness

We asked respondents how well prepared they thought banks were to handle the risks that lie ahead, on a scale where 5=well prepared and 1=poorly prepared. The average score was 3.13, signalling more optimism than the 3.04 score we recorded in 2014.

A breakdown by type of respondent shows that bankers rated their level of preparedness higher than risk managers, with observers of the industry the most pessimistic group.

Total	**3.13**
Bankers	3.24
Risk managers	3.15
Observers	3.00

A regional breakdown reveals that preparedness was seen to be better in the Far East Pacific region than Europe, with North America in between.

Banks are seen to be better prepared

Far East Pacific	3.23
North America	3.13
Europe	3.09

Respondents' views on preparedness

2/5: The size and complexity of the largest banks renders them inflexible and 'too big to govern' in such a dynamic marketplace. Significant shocks are inevitable given the plethora of risks identified, many being new challenges. **Observer, UK**

2/5: The biggest banks are bigger than in 2007. They are almost as complex and interconnected as in 2008. Leverage is lower but remains excessive. They have political supporters but the public would welcome their comeuppance. Not a good situation in an uncertain world. **Observer, USA**

3/5: Many areas of bank risk management have improved for the better, which has made the system sounder. However, new risks are emerging for which there is no historical experience that can be drawn on to assist with change. Many new risks remain relatively unmanaged. **Banker, New Zealand**

3/5: Banks are prepared but the lack of a clear view of upcoming changes does not allow them to fully anticipate potential issues. **Risk manager, Luxembourg**

4/5: With the exception of new technologies and cyber attacks, banks are well prepared. The new rules (Basel III) support much of this preparation. **Banker, Mexico**

4/5: Increased capital provision will help on some of the endemic risks. Banks are vulnerable to their own political blind spots, external political uncertainties, and rapidly changing technologies. **Observer, UK**

1. Macro-economic environment (3)

The risk that economic conditions could damage banks, for example through uncertain recovery or the growth of asset bubbles

The uncertainties in the macro-economic environment present the main threat to the recovery of the global banking system, according to this year's Banana Skins survey of banking risk. This marks a change in perceptions. In 2014, macro-economic risk came No. 3 (behind excessive regulation and political interference). Its move to the top reflects growing concerns about the weakness of the economic recovery and its apparent failure to take firm root.

There are many reasons for this: the high level of debt that persists in all the main sectors around the world: sovereign, corporate and consumer, plus the big question mark over the future of quantitative easing and interest rates. The weakness of China and other emerging markets adds another layer of risk. Softening commodity prices and the growing threat of disruption through cybercrime are further factors.

Global growth is only happening because of artificial conditions

Concern about macro-economic risk was particularly marked in Europe because of unsettled conditions in the eurozone, and to a slightly lesser extent in North America because of the QE question. Macro-economic risk was also the top concern for all types of respondent (bankers, risk managers and observers).

The fact that many economies have now returned to positive growth does not appear to be softening these concerns: indeed it seems to reinforce the view that growth is only occurring because of the artificial conditions created by abnormally low interest rates, and could easily fail as asset bubbles burst at a time when central banks have run out of monetary ammunition. Many respondents spoke of the global economy's vulnerability to “shocks” of both the financial and natural kinds, and the prospects of recession/deflation. A senior credit analyst at one of the leading rating agencies said: “The onset of interest rate normalisation in some countries, the China slowdown and the unresolved Euromess all have significant potential for instability.”

Banks are highly vulnerable to all these developments through their exposure to debt and their need for liquidity. The senior vice-president of regulatory risk at a large Canadian bank warned that “the low rate, low growth environment is going to put pressure on banks to either move out the risk curve, or reduce their cost base which might make them less able to mitigate/monitor the risks they are taking.” Similar messages came from many different points around the world (see box).

Not everyone was pessimistic. A number of respondents felt that while macro-economic risk was high, a much-strengthened banking system could withstand the shocks. A senior US banker said that “slow growth and volatile markets will impact individual institutions, but safety of the system is unlikely to be a concern.” A US regulator added that “macro volatility is always a risk to banks. Recent prudential reforms should help to temper these risks.”

Russia. "Negative trends in the economy [are] leading to a decline in business activity and in the financial condition of economic entities".

Thailand. "Slow recovery and poor sentiment are affecting almost all levels of business and consumer [activity]. Potentially this will reduce growth [and affect the] profit margins of banks and financial institutions."

South Africa. "In Africa as a whole, the state of the economy - especially in countries very dependent on one particular industry - over the next couple of years will be precarious, and strict monitoring needs to [be applied]."

Brazil. "The length of the economic recession that Brazil is currently undergoing is a matter of major concern for banks in general as it will greatly impact the performance of the loan portfolio."

Azerbaijan. "The economy is strongly dependent on oil prices since the main inflow into the budget is from oil exports. The low level of oil prices is negatively affecting the overall economy and, in turn, the business environment including banking."

2. Criminality (9)

The risk to banks in areas such as money laundering, tax evasion and cyber attack

The reason for the very sharp rise in this risk is clear: cybercrime. Respondents in North America and the UK had it as their biggest concern, and other regions ranked it no lower than No. 3.

Cyber-attacks are 'a different animal'

"Tax evasion and money laundering are two threats that can be managed and controlled. Cyber-attacks are a different animal", said an industry observer in the US. Simon Samuels, a banking consultant in the UK, said: "We may at some point see a cyber-attack so powerful on an individual bank that it has the power to bring down the institution, necessitating a state bailout". Respondents from around the world had similarly urgent comments (see box).

Many respondents worried that banks have little power to prevent attacks because cybercrime comes in many different guises, from opportunistic hackers holding private data hostage, to organised criminals pilfering funds through digital channels, to states using espionage to steal banks' intellectual property. Ashley Dowson, chairman of Sepa Consultancy in the UK, saw "potential for even greater threats as financial institutions experiment with new technologies ... crypto currencies, distributed ledgers, and real-time payments and settlement".

Banks' underinvestment in their "creaking technology systems" means they are on the back foot while criminals become more numerous, sophisticated and audacious. A respondent in the US said: "Cyber criminals work 24 hours a day and 7 days a week, and don't have to pay taxes on their gains. The industry is very vulnerable".

The material risk is potentially very large. "Billions are lost annually in these types of attack", said a banker in New Zealand, while an industry observer in the UK warned that "cyber-attack on key financial infrastructure could paralyse key activities - such as interbank payments - for some days".

And there are other risks: regulatory reprimand, fines and reputational damage from impaired security and theft of customer data.

Even if banks do rise to the challenge, criminals will target the weakest links of a heavily interconnected financial system which is currently seeing a proliferation of new players. "While banks ready their cyber defences, suppliers and other financial market infrastructure (i.e. payment systems) will need to be prepared, but are not subject to the same regulatory/supervisory authority as the banks", said a risk manager in Canada.

All banks are vulnerable through the weakest link in the system

"Cyber theft will only grow and at least one bank will fail in the next 10 years as a result" **- Chief financial officer, Singapore**

"A severe cyber attack could bring down a major financial institution or a financial market infrastructure/bourse, and create a systemic impact"
- Regulator, Canada

"Money laundering and tax evasion can harm reputation and cause regulatory penalties but are unlikely to be life threatening. Cybercrime, though, could destroy a bank" **- Observer, UK**

"Every bank is vulnerable, and a coordinated attack could be devastating. Adoption of new technologies makes this a growing risk".
- Risk manager, USA

"We are awaiting the first default caused by cybercrime due to loss of funds entrusted" **- Chief risk officer, The Netherlands**

Only five respondents out of 672 gave this risk a score of 1 out of five. Among their reasons were that this was a passing scare "like Y2K", that the risk lay more in regulatory penalties than actual theft, and that tougher controls would keep the risk at bay.

Respondents paid less attention to more conventional forms of crime. The head of finance at a bank in Luxembourg said: "Money laundering and tax evasion can be prevented by good compliance measures and scrutiny of the economic background of transactions". But a few concerns were raised, mainly in emerging economies. A respondent in Nigeria spoke of "the threat of enhanced corruption and the impact on money laundering." Mohammad Pourgholamali, head of corporate banking at Bank Pasargad in Iran, said: "Terrorism finance and the money stream from terrorism is a very important challenge all over the world, and specifically in the Middle East".

3. Regulation (1)

The risk that the current wave of regulation will have a damaging effect on banks

Concern about the potentially damaging impact of regulatory tightening continues to rank high among the risks that people see to the health of the banking industry. However there has been a noticeable shift in opinion away from the strong concerns voiced in the 2014 survey (when regulation was voted top risk), towards a more nuanced view which accepts the need for tougher controls, though also questions their cost and effectiveness.

Regulatory risk has become more nuanced

This was the No. 2 risk for bankers but lower for those outside the industry (observers placed it No.4). Geographically, it was seen to be the highest in Europe (No. 2), with North America placing it No. 3 and the Far East Pacific region No. 7

The regulatory crackdown since the financial crisis is still widely seen to be excessive, costly and rife with inconsistencies and unintended consequences. Many respondents said its volume and complexity were eating into management time and industry margins while producing questionable benefits. A respondent from Germany saw “an overkill in risk reporting without any additional added value for the system.” One European banker even said that regulatory cost had reached the point where “non-compliance is economically justifiable”, and was only kept in check by reputation risk.

Respondents singled out particular consequences, such as a loss of innovation and diversity as banks conformed to the same rules, and a reduction in competition because of the disproportionate impact on smaller banks and the rise in entry barriers. A credit analyst said that regulation was encouraging “herding” so that “banks will migrate to portfolios that have identical optimal regulatory profiles. If this were to happen it would amplify systemic risk.”

> “My main concern is the regulatory pendulum since 2008. This has massively derisked the banking sector with an avalanche of liquidity, solvency, compliance and governance reporting requirements and banking taxes (and more to come...). Is the global equilibrium right? Is the banking sector able to take and manage risks to promote economic growth efficiently, or are we moving to an inefficient zero risk system?”
> **Emmanuel Vercoustre**
> Deputy CEO and Chief Financial Officer
> AXA Banque Europe, Belgium

Proposals to “ring-fence” retail operations in many markets, including the UK, were a particular concern. A UK banking professor said the UK proposals “will have the effect of weakening, rather than strengthening, the banking system, besides raising costs and inefficiencies.”

But these concerns - many of them familiar from previous Banana Skins surveys - were balanced by the large number of respondents who felt that - on the whole - what was happening was necessary and beneficial. Banks were stronger, more risk aware - and in many cases were operating profitably despite the sharp rise in compliance costs. A US regulator argued that “the economic effects of the crisis have had (and continue to have) a much more serious effect on bank performance than the post-crisis reforms,” and the chief risk officer of a Canadian bank said that “regulation isn't going away and most institutions have adapted to the impact of new requirements”.

4. Technology risk (4)

The risk that banks will fail to keep up with technological change

After jumping 14 places in 2014, technology risk is still seen to be exceedingly urgent this year. It was ranked No.2 in the Far East Pacific region.

The heart of the problem is seen to lie in "hopelessly out-dated core banking IT systems", suffering from many years of under-investment and now ill-equipped to cope with the strains placed on them by the digital and mobile banking revolution. Alexander Campbell, editor of Operational Risk & Regulation magazine, said a failure to keep pace with technology is "not so much a risk as a certainty; the burden of multiple legacy systems at some banks (due to a history of mergers) is already causing real problems". The consequence is that banks are vulnerable to cybercrime and service disruptions, and risk alienating customers who have already embraced technology in other areas of their lives.

> "Banks create vested interests internally in all sorts of areas. IT is an example with staff seeing their jobs being dependent on keeping a system in place. Kills innovation."
> **Andrew Henderson**
> Managing director
> Wychwood Consulting, UK

As one UK banker put it, "Substantial spending [being] needed at a time when income is low and costs [are] being driven hard is not a good recipe for investment". But even if banks have no choice, the question of how and where to invest is a difficult one: there is a fear that new and costly systems could be quickly rendered obsolete. "The cost and complexity of IT updates is difficult to justify", said a treasurer in New Zealand. Compounding this is that banks "may incur new risks as they try to keep pace", said a financial analyst in the US – such as systems outages from bungled upgrades.

Banking systems are badly out of date

A widely echoed point was that if banks do not respond to changing technology, "disruptive innovators such as Google and Apple may steal market share very quickly by disintermediating banks from their clients", according to a risk manager in Canada. The director of finance at a bank in India said: "Technological innovations will eat away chunks of business from banks, such as the large number of payment apps and the expansion of financial services support through technology companies".

> "Large banks continue to rely on old systems that simply cannot provide the customer experience and expectations of today".
> **Mohamed Datoo**
> Governance, risk & compliance consultant
> Honda Financial Services, Canada

But some respondents warned that banks should not try and overreach in this area. "Those who follow technology change for its own sake will go down. Those who wait until someone else has taken the risks and used trustworthy technology to underpin market innovations will do much better", said Philip Virgo, director of Winsafe in the UK. Another UK-based risk manager said: "Banks don't need to be at the forefront [of technological change], merely in the pack behind. Staying close enough will be the hardest task".

5. Political interference (2)

The risk of political interference in management and lending policies, or the imposition of new mandates, taxes and costs

The risk of political interference ranks high in the minds of bankers, still sore from the "bashing" they received in the past seven years. But concern about this risk is easing. It was down three places and its absolute score dropped a few basis points, suggesting in the words of former banking supervisor Richard Farrant, "Banks are still an easy political target, but this is diminishing with time."

Is political risk really on the wane?

The question is whether this perennial risk is really abating or merely on hold while public opinion makes its mind up about banking behaviour. The sceptics felt that nothing much had really changed. A chief operating officer at one of the large UK banks said there was "a tendency for society, regulators and politicians to view banking as a community service where 'profit' is unacceptable." In Switzerland, Daniel Martineau, executive chairman of Summit Trust International, said: "This has been true in Switzerland and is likely to continue I'm sorry to say, to the detriment of the jurisdiction".

Even if the financial crisis is now a matter of the past, respondents saw plenty of reasons why governments might step in again: the need to raise revenues at a time of budget stress, to direct lending to "socially useful" sectors or, conversely, to constrain lending to bubble sectors such as housing and to encourage new entrants to take on the established banks. The head of operational risk at a Luxembourg bank saw a political agenda which included investor protection, rebuilding the national tax base and combating profit shifting.

The political outlook is also very uncertain, with major elections due in many places, including the US, and highly unsettled conditions in the eurozone and the Middle East. The Greek response here was apprehensive for obvious reasons. A banker said: "In Greece the main concern is country risk and whether the government will stick to its commitments towards creditors and implement the [EU bail-out] memorandum."

However there is little consistency to this risk, its level depending very much on individual countries. Among our respondents, concern was highest in Europe and North America, and among tax havens which always feel vulnerable to political mood swings over the horizon. A respondent from the Cayman Islands said: "The fear is that the US and later other jurisdictions limit who they allow their banks to do business with, and I can see it including banks in perceived tax havens".

The UK view was broadly positive. Although British banks have had a rough ride since the crisis, there is a clear perception that the government wants to call a halt and allow them to recover confidence and trust. A bank director said this was "an ever present risk but [is] unlikely to reach a level that threatens financial stability. Politicians generally pull back from the brink when they get close to this."

6. Quality of risk management (11)

The risk that banks will incur losses because of inadequate risk management

Concern about the strength of banks' risk management is high[1]. Every type of respondent we surveyed – including risk managers – had it in their top ten.

Few disputed that the industry has devoted a great amount of time and money to improving the management of risk in recent years; the question is how effective it has been. Banks are "throwing resources at the problem as opposed to necessarily getting it right", said Stephen Walker, fund manager at Sanlam FOUR in the UK. The LIBOR and forex manipulation scandals are glaring examples of risk management failure.

Risk management is being weakened by competition

One question is the strength of bankers' commitment to risk management, particularly at a time of market recovery. Some respondents wondered whether, seven years after the height of the crisis, complacency was beginning to creep into banks' thinking. "Risk had its moment in the sun but this is being competed away as the market returns to aggressive growth", said the chief credit officer of a bank in Australia. A banker in Mexico warned that risk functions are being relegated to the back seat as banks are pushed to increase loan activity.

> "Pressure on results [is] weakening the position of risk managers."
> **Chief risk officer**
> Slovakia

Some of the fault is seen to lie with onerous and distracting regulatory requirements. "There is a real danger that the risk function is increasingly having its focus turned to regulatory box-ticking, rather than proactive risk management", said the chief risk officer of a bank in Australia. A respondent in the UK said: "Risk management is all done now by slavish regulatory rule-following or, if the bank fails to comply, by internal ratings-based models that fiddle the risk-weighted assets … Surely a disaster itching to happen".

Several respondents also worried that banks have become too dependent on very technical risk management models understood by only a few people. The director of a consulting firm in the UK criticised "over reliance on quantitative risk models and not enough qualitative analysis", while the head of internal audit at a bank in Belgium said: "Complex models can contain errors that are difficult to detect".

However there were also cautionary voices about the opposing risk of stifling growth. A UK bank board director said that "[banks] may become too safe. Risk is inherent to business and economic development. We should not run risk in a cavalier manner, nor should we incentivise bankers or asset managers to do so. We should, however, be careful of curbing risk taking; in doing so we create the risk of reducing our growth rate to levels that will not employ our workforce".

[1] The absolute score given to this risk was slightly lower than in 2014 (by 0.06 out of 5) but the ranking position rose because of changes in the score of other risks.

7. Credit risk (7)

The risk that banks will suffer losses from lending to sovereign borrowers, businesses and consumers

Concern about credit risk remains high. All the major areas of credit look vulnerable, be they sovereign borrowers, corporates or consumers, or different economic regions. Indebtedness is still rising, bank leverage is worrying, and the system still has to undergo the test of interest rate "normalisation" when central banks begin to reverse quantitative easing. True, QE reversal may be postponed if the global economy begins to weaken, but this would still be bad news because it would make creditworthiness even more fragile.

Bank leverage remains high, but 'so far so good'

Kathleen Tyson, CEO of Granularity Ltd, a UK financial consultancy, said that "the normalisation of interest rates [...] will cause substantial stress on governments, debtors and financial institution creditors. Leverage levels are now well in excess of the pre-2008 crisis levels thanks to the incentives toward debt finance created by central bank practices of financial repression (ultra low policy interest rates) and quantitative easing (expanding government and financial sector borrowing capability through expansionary credit practices). At the same time the productive capacity of the private sector, which must service debts of both private sector and governments, has grown only slowly and may still be fragile." The chief credit officer at a large Australian bank said: "Debt-fuelled asset bubbles will not end comfortably".

> "The biggest underlying vulnerability is the very high and increasing level of indebtedness of borrowers around the world - in some countries largely corporates (e.g. China), in some countries households (UK, US) and in other countries governments (Europe, Japan). It seems impossible in any country to achieve growth without increasing indebtedness. And crisis management invariably just involves shifting debt from the private to public sectors.
>
> "But 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 supervisor**

So why doesn't credit risk rank higher up the scale?

One reason is "so far so good". The warning signs are all there, but the actual incidence of loan loss is so far relatively low, and could diminish further if global growth continues and banks become stronger. One respondent said: "We live in uncertain times but I identify no special vulnerabilities". Another reason is that credit risk management is supposed to have improved as a core banking competence. The head of group regulatory affairs at a major French bank said: "This is a normal risk which can be mitigated by sound risk management practices".

The main worriers on this front were risk managers who placed credit risk at No. 5 in their rankings. Bankers placed it at No. 6 and other classes of respondent placed it in the low teens. Geographically, it was of greatest concern in the emerging market world. The manager of the risk management department of a large Chinese bank said: "In emerging market economies, especially in China, debt levels are rising rapidly and so is the default rate. Globally, risk tolerance is likely to be lower as a result of a new wave of recession."

8. Conduct practices (16)

The risk that banks will be damaged by poor sales, customer servicing and other conduct of business practices

The risk that banks will be damaged by unethical business practices rises to its highest ever position in this survey. The fact that bankers ranked it No. 16, much lower than risk managers (No. 6) and other respondents (No. 5), suggests some complacency within the industry.

A repeated theme was the absence of “culture change” in banks despite tougher controls and vast fines. A risk manager at a bank in the UK (where this Banana Skin was ranked No. 5) described unethical business practices as a “perennial risk [which] won’t go away as we make money out of people who don't pay money back”.

> “There is little evidence of the required culture change in banking. We hear talk of culture change programmes, but the pressures on staff to sell, or only meet customers who are likely to buy, remain. This drives conduct of business risk. Further, the LIBOR and FOREX scandals, which are very recent and post-date the banking crisis, point to poor risk management controls in areas of banks where losses can be considerable. This presents systemic risk.”
> **Caroline Barr**
> Financial Services Consumer Panel
> UK

Little evidence of true ‘culture change’

Some respondents were concerned that institutions are striving to improve their conduct but remain tarnished by the industry’s past transgressions. “With greater awareness of this problem, banks will probably behave better than in the past but continue to get a worse press”, said one academic. Others argued that banks are held to higher standards than other industries, and less readily forgiven.

The rapidly changing industry climate poses fresh dangers in this area. A commercial banker in the UK said there was “still a very high risk covering AML [anti-money laundering], sanctions, product development and sales and their interaction with global conduct regulators, litigation and claims management firm activity”. Technological change with its requirements for new business practices adds to this risk.

9. Pricing of risk (6)

The risk that banks will misprice risk due to competitive and other pressures

The mis-pricing of risk was one of the major causes of the global financial crisis. It has fallen three places in the ranking, but this fall may only be temporary.

Mis-pricing is driven by several forces: competition, abundance of liquidity, lack of innovation (i.e. banks all chasing the same business) and low interest rates. These were all identified by respondents as part of the mix that made mis-pricing a constant risk.

Those who took a positive view stressed the improvements that had taken place in bank management. The senior vice president, finance, at a large Canadian bank said that “while always a concern, there is sufficient transparency in the market that materially mutes this risk", and the head of internal audit at a Turkish bank said that "risk management structures are becoming more robust, making organisations more conservative about taking excessive/uncontrolled risks."

> "The glut of global liquidity is already leading to silly pricing, led by the capital markets."
> **Chief risk officer**
> Australia

But there were many sceptics. John Hitchins, chairman of the audit committee of Aldermore, one of the UK's new challenger banks, said that "history tells us this will grow as a risk as memories of 2008/9 fade". The chief investment officer at a Swiss wealth management firm said that "in Switzerland there are additional risks from excessive lending practices by banks trying to gain market share in an increasingly competitive mortgage market".

10. Business model (-)

The risk that banks will fail to produce business models which meet new business, social and regulatory requirements

Can banks evolve, or just retreat?

With the profound changes that the banking industry has gone through over recent years, we introduced a Banana Skin to this year's survey to assess the risk that banks might fail to produce business models which meet the new realities. The fact that it comes in the top ten overall – and ranked consistently high across every region we surveyed – shows it is receiving a lot of thought.

> "Banks' entire business models are being reshaped not by the economy's needs but by the unintended consequences of the regulators' meddling. Banks will comply – we [customers] will suffer."
> **Observer, UK**

The thrust of many comments was that big banks are slow to innovate even at the best of times and, in the face of regulatory and political pressure, have retrenched into their traditional businesses and withdrawn from non-core markets. Conservative attitudes increasingly prevail. One risk manager in the UK says this "feels like a big risk as most banks are led by traditional bankers. Having an entrepreneurial flair is necessary to keep ahead of the pack". Another respondent likened big banks to "lumbering beasts showing little capability for rapid evolution to social and economic needs".

Enumerating the concerns, a risk manager at a bank in Belgium warned of "the non-sustainability of the current business model due to new or aggressive competitors (more attractive credit rates, high interest rate on saving accounts, etc.), advancing disintermediation, market entrants with disruptive innovations (e.g. payments market), and 'unfair' competition of state-owned banks."

This leaves the industry vulnerable to new players "which are not burdened with the IT issues or processing loops and hurdles faced by larger institutions", such as tech companies offering peer-to-peer lending, mobile money and cyber currencies. Differences in regulation are also an issue because they create an unlevel playing field between different types of competitor for the same business. The chief innovation officer of a bank in Singapore commented on "technology companies taking away profitable slices of the banking business and enjoying regulatory arbitrage".

A few comments, however, played down the severity of this risk. "The bank business model has changed, but disruption has not really occurred. There are big barriers to entry", said the chief executive of a bank in New Zealand. A risk manager in Indonesia said: "Though slow on innovation, banks tend to follow trends and adapt reasonably well".

11. Social media (19)

The risk that a bank's brand could be harmed by social media

Following its low position in the 2014 survey, the risk that social media could damage banks has risen very strongly this year, notably in North America where it ranked No. 6. (It came No. 8 in the Far East Pacific and No. 15 in Europe).

Social media are forcing change

For many respondents, social media are forcing banks to make fundamental changes to the way they protect their brands because their "light speed and unprecedented reach", their unpredictability and lack of accountability make them a very different beast to other reputational risks. Criticisms launched through social media can cause reputational damage whether or not they are well-founded. "Once it gets hold it becomes true (no matter how false) and hard to extinguish", warned a treasurer at a bank in New Zealand. "Social media is absurdly biased against financial institutions", said Adrian Rossignolo, actuarial manager at Provincia Seguros de Vida in Argentina. What makes matters worse, a respondent in the UK noted, is that "at times it is difficult for banks to respond to criticism due to privacy or competitive concerns".

This risk is probably too novel to be fully evaluated, let alone subjected to well-planned mitigation strategies, so there may be an element of emotion in the responses. Nonetheless, a number of respondents welcomed this innovation, seeing the benefits to society outweighing the risks: "Overall a positive pro-competitive feature", as one respondent put it, and an opportunity for savvy banks. David Shirreff, a financial writer, said: "Social media should keep institutions on their toes and act as an early warning system rather than a threat". By engaging directly with customers on social platforms, banks can show they are listening to and acting upon complaints. "This is precisely why banks need to understand and be active on social media rather than fearful," said a former banking executive in the UK.

> "Harm is just one tweet away."
> **Banking consultant**

A few respondents downplayed the longer term consequences of social media damage. An operations manager at a bank in New Zealand said: "Banks play everything extremely safely. Most of the stuff social media catches is low level 'noise' that no one really remembers (from a banking point of view)".

12. Reputation (-)

The risk that the industry will suffer a poor reputation or lack of public trust

Banks have received such a battering in recent years that one might expect reputation risk to be among the very highest threats they face. Yet the results shown by this survey are more nuanced, reflecting such questions as: is there any downside risk left, has the tide of disfavour turned, is it time for society, in its own interest, to help banks up rather than knock them down? In the UK, comments included:

"Damage is already done. Little risk going forward… the story is getting stale". A risk manager at a bank in Singapore noted that: "Libor, FX fixing etc. have brought about a bad reputation, but that has not prevented banks from achieving their commercial goals".

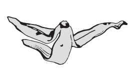
Interestingly, the risk managers (including regulators) who responded to this survey ranked reputation risk down at No. 17. Bankers placed it at No. 10 and observers at No. 8. Geographically, this risk ranked highest in Europe (No. 6) and North America (No.7). It was much lower in other parts of the world.

> "The industry seems remarkably resilient to being hated by the public"
> **UK bank director**

Most respondents did, of course, see rebuilding public trust as a priority, a task which they predicted would be long and difficult. "It may take two generations to get rid of the taint", said a respondent in the US. One problem is continued exposure to past practices. "Many banks and financial institutions have improved current processes, but what seems to sting is the consequences of conduct before the recent wave of regulatory change", said Don Campbell, Head of Risk and Compliance at Aussie Home Loans in Australia. Others took a dimmer view. "Banks will continue to find ways of making themselves look foolish; maverick teams and Spanish practices will continue to come into the open, and the press will continue to take full advantage of good copy," said the senior director of a global ratings agency. The increased threat of cyber-attacks was seen to compound this risk.

Bank reputations: little more to lose?

A poor reputation damages banks by weakening its lobbying efforts. For example, it has become hard for banks to be seen to be resisting regulation even with good reason. Some respondents warned there could also be undesirable outcomes for wider society. "The public shaming of the banking industry, while slowing down, has done great reputational damage and could be a catalyst for growth in shadow banks", said a risk manager in Canada.



13. Capital availability (10)

The risk that banks will not be able to raise affordable capital

Concern about the banks' ability to raise fresh capital to rebuild their balance sheets is abating. In 2012, in the aftermath of the financial crisis, this Banana Skin stood at No. 4. The consensus is that there is plenty of capital about, and if there are shortages they apply to particular geographic areas or classes of banks (e.g. small banks) rather than to the industry as a whole. The chief risk officer of a large Australian bank said: "The world is awash with capital at the moment, and well credentialed banks are seeing no issues in raising capital."

However, there are still potential problems, the main one being cost. The days when banks made super profits and paid out generous dividends are past. Today's banks are becoming utilities offering lower - if steadier - returns, and regulators are leaning on them to retain earnings rather than distribute them. Many respondents felt that the investment market had yet to adjust to these new realities, with the result that return expectations remained unrealistically high. Peter Wilson-Smith, director of Meritus Consultants in the UK, said: "The big issue for banks is convincing investors that they can get back to a position where returns on equity will exceed cost of capital. If they cannot do that it will be difficult to raise capital." It was also up to the banks to seek longer-term shareholders who preferred stability to volatile returns.

Some respondents took the view that while bank returns have fallen, the risks remain high, particularly with the new bail-in regimes that regulators and governments are introducing. A UK respondent said that "banking profitability has failed to recover in Europe to levels that would encourage investors to invest in banks". Banks have succeeded in raising considerable amounts of capital in the form of hybrid contingent convertible bonds, though one respondent said "at some point, however, reality will hit the COCO market".

'At some point, reality will hit the COCO market'

This risk was of greater concern to bankers (who ranked it No. 7) than to outside observers who ranked it in the high teens. It also ranked higher in emerging markets where balance sheets are more fragile and access to capital can be harder. The principal manager of a bank in Nigeria said that "current market conditions are not favourably disposed to raising capital", and the chief financial officer of a bank in Hong Kong was concerned about "increased capital scarcity and inability to pursue new business due to capital restraints."

14. Interest rates (12)

The risk to banks from the "normalisation" of interest rates

Although the long-anticipated reversal of quantitative easing by central banks, particularly the Federal Reserve, dominates the outlook for interest rates, interest rate risk itself is ranked relatively low precisely because everyone can see it coming. In fact this Banana Skin has dropped a couple of positions over the last year because of the many positives that interest change could bring to banks.

A rise in rates will widen net interest margins (NIMs) and bring the prospect of greater profitability for banks, the main question being whether this will be enough to offset the inevitable rise in bad debt as borrowers struggle to meet higher loan costs. There was an even division of opinion about this.

The chief risk officer of an Australian bank said that "loan losses may increase, however profits will improve, potentially offsetting the losses", and the senior president of finance at a large Canadian bank said that "higher interest rates may generate higher loan losses, however deposit margins would improve."

Central banks will proceed cautiously on interest rates

However there was also a strong camp which believed that creditworthiness generally was fragile and that higher borrowing costs, coming on top of collapsing commodity prices, overblown property markets and stressed governments could cause a lot of damage. A US banker said that "while banks should be on average beneficiaries of increased NIMs (unless they are excessively professional markets funded), the real risk will come from governments that have disastrous fiscal policies and cannot manage their debt service requirements; institutions that cannot handle the interest rates and inflation that are occurring, and individuals who are devastated by the spike in interest payments and loss of debt service capacity." A Canadian banker said that "the unusually long low interest rate environment will have almost certainly caused a lack of discipline in lending decisions that will only surface when rates normalize."

There was, however, broad agreement that this is an area where central banks will proceed cautiously to avoid disruption. A UK central banker said this "is not a big deal as it will happen slowly". Paul Smee, director general of the UK's Council of Mortgage Lenders, said that "the speed of normalisation is more important than the process itself". A minority of sceptics still doubted that normalisation would even happen because central banks lacked the confidence to reverse a situation - and a psychology - that had become so deeply embedded in the last seven years.

This was a risk on which there were no marked differences of view among classes of respondent - all of them placing it in the mid to low teens.

15. Emerging markets (17)

The risk to banks from volatility in emerging markets

Concern about emerging market risk is rising, though possibly not as much as might be expected given the gloomy headlines from China and worsening political and economic conditions in many parts of the emerging world.

China is the obvious focus

A US respondent predicted that "disruptions in the Middle East, North Africa and China will have a significant negative effect on the world economy in 2016." A Japanese respondent said that "rising insolvencies in China and slowed growth rate in emerging economies will have negative impacts on global liquidity and money flow which could cause high volatility and worldwide financial instability."

> "It is quite alarming how little attention has been paid to the Chinese banking sector [which looks] primed to be the next catalyst for a global financial crisis. Key risk factors include the sheer magnitude of the sector and of individual banks, [...] the opacity of their balance sheets, the size of non-performing loans receiving continued state support *via* multiple means, and the lack of systemic experience in China in handling a large scale financial crisis."
> **Bank director**
> Canada

Although respondents voiced concerns about a variety of areas and countries (Middle East, North Africa, Brazil, Nigeria etc.) most of them came back to the main focus: China. "The spectre of a declining Chinese economy and the resulting impact on world markets is concerning", according to a chief risk officer in Canada. There are multiple concerns: the fragility of the Chinese financial system, the scale of non-performing loans, inadequate information about banks' balance sheets, and the wider ripple effect - particularly on other parts of the emerging world - of slowing demand for commodities. The chief risk officer at a large bank in Hong Kong said that credit risk in mainland China will be "high in the next two years due to slower economic growth, higher bad loan rates and high risk in overcapacity industries. This will give concern to banks in many parts of the world where economies are highly related to or dependent on the China economy."

But many respondents were more relaxed about the outlook, noting that direct bank exposure to the emerging world and China in particular is more a matter for individual banks than the system as a whole. Geographically, a lot of the exposure is in Europe and the Far East and less in North America. Emerging market crises (or LDC crises as they were known in the old days) are also nothing new: banks have ridden a number of them successfully.

The underlying concern is the macro-economic one whether the EM slowdown will drag the rest of the world down too, exposing banks to wider loses in their home markets. Many respondents felt this could happen. A UK banker warned: “Second order impacts need to be watched .”

How emerging economies see it

South Africa. “I expect the African banking industry to face significant challenges in the next 2-3 years on the back of a very challenging macro-economic environment with slowing economic growth, commodity prices under pressure for longer, volatile equity and capital markets [and] negative sentiment towards emerging markets.”

Mexico. “Expectations of a rise in rates in the US are feeding unease into the financial markets. That may add to [a] flight-to-quality, leaving emerging markets in turmoil.”

Singapore. “[The risk is] macro-economic instability in Asia as the US and Europe return to a normal interest rate environment.”

Taiwan. “Although many emerging market economies have enhanced their policy frameworks and resilience to external shocks, several key economies face substantial domestic imbalances and lower growth. Recent market developments such as slumping commodity prices, China’s bursting equity bubble and pressure on exchange rates underscore these challenges.”

Peru. “In emerging markets, exposure to changing trends in interest rates, flows, commodity prices and currencies may have major effects on companies and individuals that have been increasing their leverage. [...] Certain institutions are unprepared for a downturn.”

16. Shadow banking (20)

The risk to banks from hedge funds and other “shadow” banking institutions, for example as competition or sources of volatility

Financial activity is moving towards the unregulated sector

Worries about the rapid growth of the shadow banking sector, its “unfair” competitive advantages, the lack of regulation and its potential to change the face of banking are growing.

The competitive threat posed by “shadow banks” (i.e. non-bank institutions which offer bank-type services such as loans, investments and payment services) was summed up by the head of financial management at a large French bank who feared that a tighter regulatory framework would “promote banking disintermediation and challenge financial institutions' business models. While banks continue to strengthen their financial structure, new players operating in a less regulated environment emerge in an increasingly competitive market.” Most respondents blamed excessive regulation of the mainstream financial sector for this trend. But some felt it was a consequence of what one of them described as the banks' “inward” focus and failure to keep up with a fast-changing market.

Specific concerns centred on the shadow banks' ability to “cherry pick” the most profitable parts of the market, and use their more lightly regulated status to undercut traditional banks. The head of compliance at a large Portuguese bank said that “financial institutions are too busy preparing themselves to comply with all the new (non-stop) regulations while shadow banks (without any regulation) are growing in economic influence.”

Another frequently mentioned danger was the risk to the financial system as the unregulated sector grows in importance. A banking regulator said that “financial activity continues to move towards less-regulated shadow banks, thereby adding to systemic risks.” Shadow banks are seen as more vulnerable to cyber crime and fraud; one respondent feared there would be “a failure in the shadow banking world as peer to peer lenders find their credit models are not as good as they thought”.

"New regulation has already hurt institutions. But more importantly it is driving the most vulnerable segments of society into the hands of unregulated shadow lenders who will have none of the constraints a regulated institution has, nor any of the ‘governors’ that a transparent firm has. The most vulnerable are being driven into the hands of the most ruthless.”
Senior executive
US money centre bank

The question is whether these fears are overdone or whether, as one respondent said, developments so far are only the thin end of a much larger fintech wedge that “is going to undermine the core businesses of banks”. A respondent from Singapore foresaw “more shadow banks and underground banking systems springing up which could be unsafe for customers...and impact the economy a great deal.”

Not surprisingly, perhaps, bankers rated this risk more highly than non-bankers. Geographically concern was highest in North America and the Far East.

17. Currency (22)

The risk to banks from volatility in the foreign exchange markets

Currency risk is rising, but from a low base. Despite recent events - the euro crisis, the Swiss revaluation etc. - currency risk does not score high because this is one risk the banks should be equipped to manage and hedge against. The greater risk is that banks might suffer indirectly through losses sustained by their clients, or by shadow banking institutions causing disruptions to the market.

A particular concern is the euro whose future remains unresolved. Neil Record, chairman of Record Currency Management in the UK, said that “European banks may have divested themselves of much of the most toxic state debt, but the euro is enforcing artificial prices across the EU, and that includes artificial asset values. If the political will to hold the Euro together weakens, this could seriously threaten the stability of the European (and therefore the global) banking sector.”

Generally, concern about this risk was higher in emerging than in developed markets because of the impact of currency volatility - and a strong dollar - on commodity markets. Its highest rank (No. 5) was in the Middle East. One respondent saw a long term business risk in disintermediation technology which connected buyers and sellers, wiping out the margins earned by banks on FX transactions.

18. Liquidity (15)

The risk that banks will encounter liquidity problems

Liquidity risk has received considerable attention from banks and regulators in the last few years, with the result that concern about it continues to fall sharply (this was rated the top risk when the financial crisis burst in 2008). Liquidity is, in general, abundant even if it remains fenced in by regulatory or national barriers.

Big liquidity buffers can reduce this risk

A number of respondents made the point that liquidity risk is a bit like lightning - no one knows when and where it will strike. But with banks managing their liquidity positions much more carefully, and central banks standing by to intervene at the first sign of trouble, the risk of such a crisis is much diminished. The chief risk officer of a bank in Spain said that "this risk is reduced since institutions have to keep much larger liquidity buffers for regulatory purposes. Although still to be tested in a crisis, these buffers should allow institutions to be more resilient".

What concerns there were centred on two points. One is the risk that tougher liquidity requirements in banking markets are constraining other markets, particularly those trading securities, which could have wider economic consequences and could even require central bank intervention. Robert de Metz, chairman of Dexia in Belgium, said that "the main risk is a liquidity risk spreading over credit papers of all kinds held by non-banking institutions which could have a disastrous impact on regulated financial institutions because of the IFRS obsession with so-called 'mark to market' rules." The other is that the impact of the reversal of quantitative easing remains one of the great unknowns.

This was a risk that particularly concerned smaller banks and those in emerging markets which might be the first to suffer in a crisis. The chief risk officer at a bank in Nigeria said that "Some banks, due to their smaller size, greater exposure to poorly performing business sectors, or exposures to high risk economic sectors, may suffer from client and depositor 'flight to quality'."

19. Corporate governance (8)

The risk that weakness at board level will lead to poor oversight and control of banks

Boards can have only 'a shallow understanding' of their banks

Corporate governance risk is the biggest faller in this survey. Geographically, it ranked second from bottom in the Far East Pacific and North America, though it was higher in Europe (at No. 14).

The extent of this fall is difficult to reconcile with the many negative comments we received, but some respondents did note improvements. The head of regulatory affairs at a bank in France said: "Given the numerous CEOs fired by their boards, it seems that they are increasingly fulfilling their oversight role with teeth. This is good". Sriraghavan Rajamannar, senior vice-president at Bank Danamon Indonesia, said: "The board and senior management are more aware about regulations and other mandatory governance activities. They also take efforts to know the risk side of the regulatory controls."

But the main thrust of the comments was that boardrooms have too many expectations placed on them and possess too little relevant knowledge to be effective. In many cases this was not a criticism of individuals so much as an observation that institutions have become so vast and complex, operating in an impenetrable regulatory climate across multiple jurisdictions, that board members can at best have only a shallow understanding of the risks they face.

This means that boards are often unable to find the right questions to challenge the information that management chooses to provide to them. A consultant in Canada warned: “Weakness, arrogance, and concentrations of power [in management] without adequate governance are serious risks”. A banker in the UK said: “It does not seem to me that banks have really changed the nature of their boards, just thrown even more paper and procedures at them, so they will progressively lose sight of the risks”.

> “Board directors are increasingly being expected to be all things to all regulators. They will fail”.
> **Non-executive director**
> UK bank

Yet the point was also made that overly conservative boards risk stifling innovation. A senior operations banker in Canada said a “huge challenge” over the next few years is “very heavy governance decreasing banks’ agility”, adding that banks “need to be able to take business decisions and actions more rapidly”.

20. Management incentives (21)

The risk to banking soundness and reputation from poorly designed incentive structures.

The risk to banks from poorly designed incentive structures continues to be seen as low, but (unsurprisingly) there was a pronounced split between those inside and outside the industry: bankers ranked it No. 22 while observers had it at No. 11.

Several respondents pointed to tangible improvements in recent times. “Deferral, claw back and value requirements mean that this threat has been significantly diminished”, said the head of risk strategy at a bank in the UK. In China, a risk manager said: “Banks have been improving management incentives by increasing the proportion of incentives designed to encourage longer term decision making”.

Incentives for risk managers, not just rainmakers

While some credited regulatory reform for making a difference, there was also much scepticism. One respondent said that “the incentive is there for the revenue generators; it should be there for the gate keepers of risk”. There was also a feeling that banks were “out of kilter with the real world”, as one respondent put it. The chief risk officer of an investment bank in Nigeria said: “Management's remuneration is often linked to the achievement of macro earnings targets that are disconnected from economic and client realities”. Others saw banks lending “a tin ear to public concern about executive compensation and the lack of accountability for performance”.

A senior manager at a large bank in the US argued that the debate over pay structures was a distraction from a more important issue. “The bigger concern is whether the wrong people are being allowed into management to start with. Regulators should be flexing their muscles and not allowing people without core skills to inhabit the senior management offices”. David Miles, an independent strategic and actuarial advisor in the UK, said that “current plans to regulate remuneration and bonuses will just drive the best individuals into sectors less well regulated”.

21. Derivatives (18)

The risk that banks will suffer losses through their dealings in derivatives and structured products

The risk to banks from derivatives and structured products, a Banana Skin that made the top ten of each edition of this survey between 2000 and 2010, is now considered lower order in every region we looked at.

> "The notional value of global derivative contracts outstanding exceeds $650 trillion. A mere 1% of derivatives gone wrong could cause losses of nearly $7 trillion".
> **Robert Jenkins**
> Senior Fellow
> Better Markets

This is because memories of the global financial crisis are still vivid, the appetite for complex products has generally fallen, and controls – in terms of both regulation and internal risk management – are tight. "AIG was a generational scare. Banks should have learnt about counter-party risk, at least systemically", said an observer of the industry in the UK. The head of finance at a bank in Luxembourg described the threat as being curbed by "good systems, skilled traders, limited bonuses and monitoring of trading limits".

But many respondents were more anxious about the longer-term prospects, particularly if banks fail to hit their profitability targets and turn to "a new generation of traders and structurers… too young to have the required caution". There was a feeling that senior management teams in particular are not well equipped to control this risk because they do not really understand it. The sheer scale of the market makes derivatives potential "weapons of wealth destruction", as one respondent put it.

Ian Dowson, managing director of William Garrity Associates in the UK, warned that losses are "almost a certainty" because "there is no standardisation of derivative product construction, no accurate VAR[2] in real time reporting and no real open market in derivatives with central clearing".

22. Human resources (23)

The risk that banks will have difficulty attracting and retaining talent in the present environment

Plenty of bankers available, but are they the 'right' kind?

While the risk that banks will have difficulty attracting and retaining talent continues to appear well down these rankings, the comments we received gave a more conflicted impression. Anxiety was higher in the Far East Pacific region and North America, which both ranked this at No. 14.

Those who saw this Banana Skin as a low threat pointed to the fact that banks are generally cutting their headcounts in the current climate to reduce costs – which means there should be relatively more talent available for the jobs that remain. At the same time, the consensus was that pay remains attractive, particularly in a tough economic environment with rising unemployment in many regions. "Not really a risk in the grand scheme of things because banks pay higher than the mainstream average, even at CEO level", said a risk manager in the UK.

[2] Value at risk, a statistical technique used to measure and quantify financial risk

One opposing view is that while qualified people may not be in short supply, much of what was considered ‘talent’ before the crisis is not what banks need now. In the words of a US observer, “the more difficult task will be attracting talent who conduct banking practices in a manner that will regain public trust in banks”. Another concern is that ever more convoluted regulatory requirements are reducing the appeal of banking as a career. “The hostile political, social and regulatory environment has led to an industry brain drain that shows no sign of ending”, said a banking consultant in the UK.

A repeated point was that the industry is in danger of losing its most talented people to the technology sector in particular, with the growing allure of fin-tech companies and start-ups. “Banks are unable to limit staff attrition rates, as their product specialists move to competing industries such as payment solutions companies”, said a finance director at a bank in India.

23. Reliance on third parties (24)

The risk from outsourcing or off-shoring activities

Banks' reliance on third parties to carry out parts of their operations continues to be seen as a low ranking risk - there haven't been serious publicised disasters. But this is clearly an issue that needs watching.

Respondents felt that banks were not fully on top of the risks, or failed to monitor their service providers adequately. Sue Milton, managing director of SSM Governance Associates in the UK, said this was an area “where boards underestimate the effort required and forget they remain responsible for the activities of the 3rd party. Knowing, continually monitoring, and holding the service supplier to account is crucial. Makes KYC a piece of cake in comparison.” A regional risk officer in Singapore said that “considering the complexity of the big banks, I strongly doubt that they all fully understand the reliance on and exposure to internal and external outsourcing.”

Among the reasons for keeping a close eye on this area are the mounting pressures on banks to cut costs, growing threats to security, the use of new and possibly unfamiliar technology to manage the outsourcing, and dependence by many banks on the same provider, resulting in a concentration of risk. The use of the cloud for data storage was another concern, described by one respondent as “a rising preference that is still unproven”.

> “As banks become more of a financial information business, outsourcing IT should rise higher up the totem pole of key issues.”
> **Peter Hahn**
> Senior fellow
> Cass Business School
> UK

Among reasons given for lower concern were the fact that banks now made less use of outsourcing, and that what there was had become more secure. The head of risk strategy at a large UK bank said that “The heightened, necessary requirements here will make things come out of the woodwork.”

24. Sustainability (25)

The risk to banks from climate change and other environmental issues

This risk was by some distance the lowest-ranked Banana Skin in this survey, finishing bottom of the table in every region and among every type of respondent we surveyed.

Banks ‘can adapt to environment risk’

Two main reasons were given: first, that banks are less at risk than other types of institution, particular insurers; and second, that the threat is “real, but conveniently very long term”, as the chief risk officer of a private equity company put it. Reflecting the general tone of the responses, a senior bank audit manager in Turkey said: “Climate change and environmental risk are serious issues for humanity. But looking at this from banks' window alone I believe the risks will be avoided through adaptation”.

However, the indirect risks from environmental disruption could still be considerable through the impact on banks’ customers and clients, and its potential to create economic, political or geographic tension. Patricia Hamzahee, founder of Integriti Capital in the UK, said: “This risk comes from banks not understanding the impact on their own operations, *via* their clients, their supply chain and their communities”.

Some respondents thought this was an area where banks should take the lead. “I see this as an opportunity to improve a bank's image and perception of social usefulness”, said a respondent in France. In the UK, a compliance officer said: “Banks could actually increase positive efforts by offering lower fees or rates for greener activity”.

A few responses flagged specific concerns, such as the impact on project-based lending facilities for dams or power stations, and non-performing loans in the agrarian sectors of emerging economies if monsoons fail. The chief financial officer of a bank in Singapore cautioned about complacency, saying: “Almost all sectors of the economy, barring agri-business, underestimate or underplay the longer term role of climate change and the environment on the economy and subsequently the financial sector. The longer-term correlation between El Niño and finance is yet to be fully understood and acknowledged”.

And finally...the next crisis

The responses to this survey conveyed a strong sense that the global financial system is not out of the woods. In fact many respondents saw another crisis looming, triggered by events as far apart as the collapse of commodity markets or the eurozone. Here are some of the specific dangers they highlighted.

Leverage. Banks remain highly leveraged. It will not require a huge shock to topple them.

Liquidity. Although liquidity in the banking system is generally good, this is at the expense of other markets from which it is being drained, notably the securities markets which could be the crucible of a new crisis.

Culture change. Banks have not undergone enough culture change to make them less risky. They are only moulding themselves to regulatory and public expectations without cutting out their earlier failings.

Central counterparties (CCPs). These represent points of high risk concentration which are inadequately regulated and could implode.

Risk management. Regulatory pressure pushes banks to focus on compliance risks rather than "real" risks. Risk management becomes robotic and insensitive.

Corporate governance. Banks are now too large and complex for boards to be able to exercise effective oversight and control over them.

Herding. The regulatory tightening encourages banks to behave in the same way, resulting in herding and over-concentration, and excessive competition.

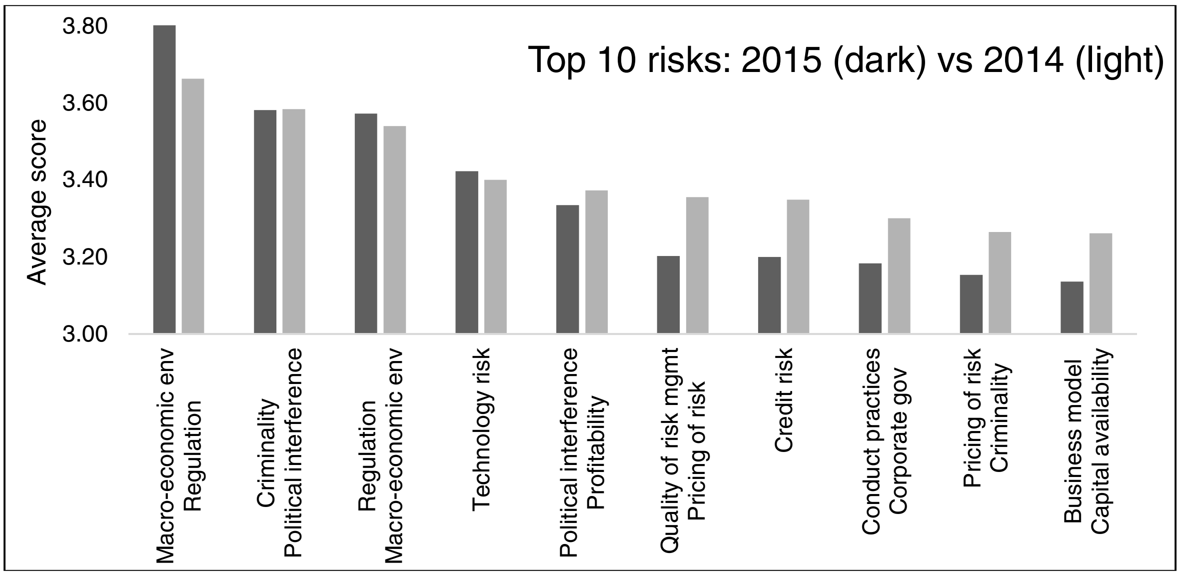
Risk taking. The weight and cost of regulation are driving banks to take greater risks to earn profits, and pushing business into the unregulated shadow world.

Appendix 1

A closer look at the numbers

In the CSFI Banana Skins surveys, respondents are asked to score each risk on a scale from 1-5, where '5' is the most severe. The averages of these scores are then used to produce the final rankings. The section below should be treated with caution: respondents may have different criteria about what merits a 5, for example. Nonetheless, a breakdown of the scores is revealing.

Anxiety is growing at the top of the rankings but receding elsewhere.



The top cluster of risks this year were seen as more severe than in 2014. However, after Banana Skin No. 5 the reverse is true – which suggests that outside the main threats to the industry, the picture is improving. Still, it should be noted that two-thirds of risks we surveyed this year were ascribed a higher than middling score (i.e. more than 3).

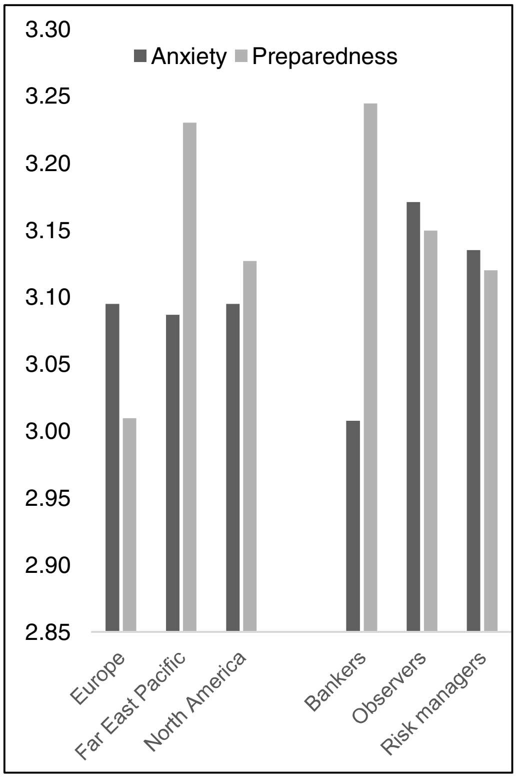
The difference in average scores assigned to individual risks also reveals more fallers than risers:

2015 vs 2014: average scores

Risks in each column listed from greatest change (top) to smallest change (bottom)

Up > 0.15	Up < 0.15	Down < 0.15	Down > 0.15
Criminality	Conduct practices	Credit risk	Sustainability
Macro-economic envt.	Currency	Capital availability	Corporate governance
Social media	Shadow banking	Interest rates	Derivatives
	Technology risk	Liquidity	Political interference
	Emerging markets	Reliance on 3rd parties	Pricing of risk
		Regulation	Credit risk
		Human resources	Mgt. incentives
		Quality of risk mgt.	Capital availability

As the table above shows, changes in the relative position of risks do not always tell the whole story. For example, **social media** and **conduct practices** risk, despite being the biggest climbers in this year's rankings (both up 8 positions), saw their scores rise by considerably less than **macro-economic environment** risk (0.11 and 0.15 vs 0.26). **Pricing of risk**, **political interference** and **derivatives** fell just three positions each, but their scores all dropped by more than 0.20. An interesting anomaly was **quality of risk management,** which rose five positions in the rankings even though its score slipped slightly (down 0.06).



Regional breakdown: same levels of anxiety, widely different preparedness

While different regions emphasised some risks over others, Europe, the Far East Pacific area and North America each assigned an average score of 3.09 to the 24 Banana Skins in this survey. However, respondents from the Far East Pacific were much more optimistic about their ability to face these risks than those from Europe – with North America in between.

Risk managers: now closer to observers than bankers

In 2014, the outlook of risk managers – both in terms of the severity of risks faced and the industry's ability to deal with them – was much closer to bankers than non-practitioners. This year the reverse appears to be true. While observers recorded the highest anxiety levels, risk managers were the most pessimistic group when it came to preparedness.

Bankers vs observers
(difference in scores)

Management incentives	0.53
Conduct practices	0.43
Corporate governance	0.41
Reliance on third parties	0.34
Criminality	0.30
Sustainability	0.30
Technology risk	0.24
Emerging markets	0.22
Quality of risk management	0.21
Shadow banking	0.18

Bankers and observers disagree most about the severity of operating and governance risks

Bankers tended to be much less anxious than industry observers about the Banana Skins individual institutions have more influence over, such as bonuses, business practices, corporate governance and technology risks. On the other hand, there was a stronger consensus about risks seen to be outside banks' control, such as those related to macroeconomic conditions.

Could this indicate complacency by practitioners – or are they simply better placed to assess the threat of the operating and governance risks they face? Perhaps the answer is both: on nine of the ten risks in the table, risk managers came down in between bankers and observers.

Appendix 2

The changing face of risk

Some Banana Skins come and go, some are hardy perennials.

The Top Ten since 1996 show how concerns have changed over nearly 20 years. The 1990s were dominated by strategic issues: new types of competition and technologies, dramatic developments such as EMU, the Internet and Y2K. Many of these faded, to be replaced by economic and political risks and particularly by concern over the growth of regulation. The period after 2000 also saw the rise of newfangled risks such as derivatives and hedge funds, the latter making their first appearance in 2005.

The 2008 survey, conducted at the height of the financial crisis, brought the focus sharply onto credit and market risks, and propelled two new entrants to the top of the charts: liquidity and credit spreads. The next two surveys, conducted at a time of great financial turmoil, showed a twin preoccupation with financial dangers (credit, derivatives, liquidity, capital) and the growing backlash against banks as seen in the sharp growth in regulatory and political risk.

The 2014 survey, the first in the post-crisis era, showed a hardening of the view that these external risks were damaging, but also a lower concern with crisis-critical issues such as credit risk, capital adequacy and liquidity (which disappeared from the Top Ten for the first time since the crisis began). But ominous new risks also appeared, in particular technology and criminality as banks discovered their vulnerability to cyber crime and ageing IT systems.

The latest survey confirms these fears. Technology and criminality risk are now in the top five, ranking alongside regulation and political interference as the top threats to the industry. However the dominant finding is the shakiness of confidence in the macro-economic outlook where high debt, interest rate uncertainty and emerging market difficulties threaten the recovery.

Banking Banana Skins: The Top Ten since 1996

1996
1. Poor management
2. EMU turbulence
3. Rogue trader
4. Excessive competition
5. Bad lending
6. Emerging markets
7. Fraud
8. Derivatives
9. New products
10. Technology foul-up

1998
1. Poor risk management
2. Y2K
3. Poor strategy
4. EMU turbulence
5. Regulation
6. Emerging markets
7. New entrants
8. Cross-border competition
9. Product mis-pricing
10. Grasp of technology

2000
1. Equity market crash
2. E-commerce
3. Asset quality
4. Grasp of new technology
5. High dependence on tech.
6. Banking market o'-capacity
7. Merger mania
8. Economy overheating
9. Comp. from new entrants
10. Complex fin. instruments

2002
1. Credit risk
2. Macro-economy
3. Equity markets
4. Complex financial instruments
5. Business continuation
6. Domestic regulation
7. Insurance
8. Emerging markets
9. Banking market o'-capacity
10. International regulation

2003
1. Complex financial instruments
2. Credit risk
3. Macro economy
4. Insurance
5. Business continuation
6. International regulation
7. Equity markets
8. Corporate governance
9. Interest rates
10. Political shocks

2005
1. Too much regulation
2. Credit risk
3. Corporate governance
4. Derivatives
5. Hedge funds
6. Fraud
7. Currencies
8. High dependence on tech.
9. Risk management
10. Macro-economic trends

2006
1. Too much regulation
2. Credit risk
3. Derivatives
4. Commodities
5. Interest rates
6. High dependence on tech.
7. Hedge funds
8. Corporate governance
9. Emerging markets
10. Risk management

2008
1. Liquidity
2. Credit risk
3. Credit spreads
4. Derivatives
5. Macro-economic trends
6. Risk management
7. Equities
8. Too much regulation
9. Interest rates
10. Hedge funds

2010
1. Political interference
2. Credit risk
3. Too much regulation
4. Macro-economic trends
5. Liquidity
6. Capital availability
7. Derivatives
8. Risk management quality
9. Credit spreads
10. Equities

2012
1. Macro-economic risk
2. Credit risk
3. Liquidity
4. Capital availability
5. Political interference
6. Regulation
7. Profitability
8. Derivatives
9. Corporate governance
10. Quality of risk management

2014
1. Regulation
2. Political interference
3. Macro-economic envt.
4. Technology risk
5. Profitability
6. Pricing of risk
7. Credit risk
8. Corporate governance
9. Criminality
10. Capital availability

2015
1. Macro-economic envt.
2. Criminality
3. Regulation
4. Technology risk
5. Political interference
6. Quality of risk management
7. Credit risk
8. Conduct practices
9. Pricing of risk
10. Business model

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Linklaters
King & Wood Mallesons SJ Berwin
SWIFT

UK £25
US $45
EUR €35
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