

# ***Banking Banana Skins 2012***

What are the most pressing risks facing the banking industry?

## **The Canadian results**

<b>Banking Banana Skins 2012</b> (2010 ranking in brackets)			
<b>World</b>		<b>Canada</b>	
1	Macro-economic risk (4)	1	Macro-economic risk (3)
2	Credit risk (2)	2	Liquidity (6)
3	Liquidity (5)	3	Regulation (5)
4	Capital availability (6)	4	Capital availability (24)
5	Political interference (1)	5	Credit risk (1)
6	Regulation (3)	6	Derivatives (7)
7	Profitability (–)	7	Profitability (–)
8	Derivatives (7)	8	Political interference (4)
9	Corporate governance (12)	9	Quality of risk management (2)
10	Quality of risk management (8)	10	Hedge funds (11)
11	Pricing of risk (9)	11	Back office (23)
12	Business continuation (21)	12	Corporate governance (16)
13	Back office (24)	13	High dependence on technology (13)
14	Management incentives (16)	14	Pricing of risk (12)
15	Change management (28)	15	Management incentives (8)
16	Hedge funds (19)	16	Business continuation (20)
17	Interest rates (14)	17	Human resources (–)
18	High dependence on technology (18)	18	Change management (26)
19	Currencies (11)	19	Interest rates (19)
20	Business practices (22)	20	Currencies (10)
21	Equity markets (10)	21	Criminality (25)
22	Emerging markets (17)	22	Equity markets (15)
23	Rogue trader (20)	23	Reliance on third parties (–)
24	Criminality (27)	24	Rogue trader (17)
25	Sustainability (25)	25	Fraud (18)
26	Commodities (13)	26	Business practices (22)
27	Fraud (15)	27	Emerging markets (14)
28	Human resources (–)	28	Commodities (9)
29	Reliance on third parties (–)	29	Sustainability (27)
30	Payment systems (26)	30	Payment systems (21)

## Canada

There were 41 responses from Canada, 39 from bankers, one from a banking regulator, and one from a close observer.

The overall response showed that the Canadian economy and banking system are seen to be in better shape than in many other countries, though concern about contagion from more troubled economies, particularly the US and Europe, is clouding the outlook.

One respondent said: “We have political gridlock in the US and the eurozone, and there does not seem to be the political will or the ability to get ahead of the crisis. All of this feeds into uncertainty for business and consumers, and is likely to lead to weaker growth or recession.”

Most of the top risks identified by Canada were in line with those in the global ranking: macro-economic risk, funding issues and regulation. Although credit risk, at No. 5, was lower than many other countries, this was also the position it occupied in the US response. Canada’s score on the Banana Skins Index was 3.25, compared to the world average of 3.15, suggesting a slightly elevated level of anxiety.

The most marked differences between Canada and the rest of the world included:

### Higher concerns

- **Regulation:** “Regulatory risk is a huge issue, i.e. the level of resources required to deal with the volume of regulation could have the perverse effect of increasing risk in the financial system because institutions and regulators are so distracted that they could take their eye off new risks forming on the horizon.”
- **Hedge funds:** “The risk is that increased regulation on banks will result in more business moving to unregulated entities.”
- **High dependence on technology:** “Interdependent systems and reliance on them combined with legacy systems and the need for change makes this space fragile.”
- **Human resources:** “Becoming a concern as the market heats up in Canada. Replacing aging baby boomers and the need for very specialized talents will become more problematic.”

### Lower concerns

- **Credit risk:** “Low concern in Canada, but contagion effect could lead to tightening liquidity in the markets.”
- **Business practices:** “This is a risk here, but the industry is more aware and applies more rigour.”
- **Emerging markets:** “May be high, but exposures are still relatively low, as business concentration is low for most Canadian banks.”
- **Interest rates:** “Interest rates are currently more predictable than US love comedies...”

### Preparedness

**We asked the question:** “How well prepared do you think banks are to handle the risks you have identified, on a scale where 5=well and 1=poorly?”

Canada scored 3.30 against a global average of 2.96, suggesting that Canadian banks are viewed as among the better prepared. One respondent said: “Banks are devoting resources to regulatory changes and will be in a position of compliance. But it will take years before we are able to assess the impact on competitiveness and the economy, or the unintended increased risk in the system.”

To view the complete report, please visit [www.pwc.com/gx/banking-capital-markets/banana-skins](http://www.pwc.com/gx/banking-capital-markets/banana-skins).

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