

May 2014

# ***Banking Banana Skins 2014***

## **The Canadian results**



Our Banking Banana Skins 2014 survey sheds light on perceived banking risks globally. We've explored the Canadian responses and studied them against the global averages. Interestingly, Canadian banking executives felt the most prepared to deal with these risks compared to their global counterparts—a testament to the relative strength of the Canadian banks.

### ***Regulation is the top-rated risk***

Compared to 2012, where the macro-economic environment proved to be the top concern, regulation has been ranked the 2014 primary risk in both the world and in Canada. With regulatory requirements increasing exponentially since the economic crisis, it's no surprise that concerns about the number of regulatory requirements, cost of compliance and balancing the cost of running a business, position regulation as the highest risk to the industry.

Many respondents felt regulatory change had gone too far. One Canadian bank director referred to it as a "gotcha attitude against banks." The longer term impact of these regulatory changes is yet to be seen. Some feel the changes favour larger banks that can better absorb the significant costs. Increased regulations for banks increases the risk of non-banking entities providing similar services while sidestepping the regulatory matrix. That's why shadow banking also emerges within Canadian banking executives' top 10 risk factors.

### ***Criminality and technology risks rank high***

Canadians noted criminality as a higher risk than world rankings. However, this risk is closely associated with the increasing threat of illegal cyber activity which is also covered in technology risk. These results are not to say that Canadians are more prone to criminality as a risk to the financial industry, but that there's a high level of awareness and overall increased sensitivity to cyber security.

Technology risk is also driven by the expansion of mobile banking, new payment technologies and the increased data requirements arising from the regulatory environment. Some of the banks' older systems may not be able to analyze large volumes of data in an efficient manner creating risk in process.

#### ***Big movers (up)***

- Criminality
- Interest rates
- Shadow banking
- Social media

#### ***Big movers (down)***

- Management incentives
- Corporate governance
- Profitability and capital availability

## What are the most pressing concerns for the banking industry?

Canada	2014	2012	World	2014	2012
Regulation	1	3	Regulation	1	6
Technology risk	2	13	Political interference	2	5
Macro-economic environment	3	1	Macro-economic environment	3	1
Criminality	4	21	Technology risk	4	18
Interest rates	5	19	Profitability	5	7
Political interference	6	8	Pricing of risk	6	11
Quality of risk management	7	9	Credit risk	7	2
Shadow banking	8	–	Corporate governance	8	9
Credit risk	9	5	Criminality	9	24
Change management	10	18	Capital availability	10	4
Profitability	11	7	Quality of risk management	11	10
Pricing of risk	12	14	Interest rates	12	17
Social media	13	–	Back office	13	13
Liquidity	14	2	Change management	14	15
Reliance on third parties	15	23	Liquidity	15	3
Back office	16	11	Sales and business practices	16	20
Human resources	17	17	Emerging markets	17	22
Emerging markets	18	27	Derivatives	18	8
Derivatives	19	6	Social media	19	–
Capital availability	20	4	Shadow banking	20	–
Equity markets	21	22	Management incentives	21	14
Currency	22	20	Currency	22	19
Commodity markets	23	28	Human resources	23	28
Business continuation	24	16	Reliance on third parties	24	29
Social sustainability	25	29	Social sustainability	25	25
Corporate governance	26	12	Equity markets	26	21
Management incentives	27	15	Commodity markets	27	26
Sales and business practices	28	26	Business continuation	28	12

## Canada's executives feel most prepared to deal with risks

The survey asked respondents how well prepared they felt banks were to deal with the 2014 identified risks. Canada ranked first on the preparedness index, and also scored lower than the global average on the anxiety index. This is likely the effect of:

- strong Canadian banks' profitability compared to their global counterparts
- consistent regulatory oversight from the Office of the Superintendent of Financial Institutions (OSFI)
- conservative approach to banking reflected through low loss rates
- contingency planning by Canadian banks to deal with stresses to the economic environment

**“ Banks have become better at looking forward at risks to identify what is on the horizon and adjusting better for those potential challenges ”**

CFO of a major bank in Canada

### Preparedness index

Rank	Country	2014	2012
1	Canada	3.52↑	3.30
2	Australia	3.50↑	3.21
4	China	3.50↑	3.43
14	Global average	3.04↑	2.96
21	UK	2.70↓	2.72
22	USA	2.48↓	2.85

### Anxiety index

Rank	Country	2014	2012
5	USA	3.21↓	3.37
7	UK	3.20↓	3.24
10	Global average	3.12↓	3.15
12	Canada	3.08↓	3.25
15	Australia	3.02↓	3.28
22	China	2.19↓	3.18

## About Banking Banana Skins 2014

Banking Banana Skins is a unique report that provides insight into the changing risk factors 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. It is produced by the Centre for the Study of Financial Innovation (CSFI) in association with PwC. It includes insights from over 650 responses from 59 countries. In Canada this year, there were 45 respondents: 28 bankers, 11 observers and 6 risk managers.

To view the complete report, please visit our global website: [www.pwc.com/bbs2014](http://www.pwc.com/bbs2014)

### **Who to call**

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**Diane Kazarian**  
National Financial Services Leader  
416 365 8228  
[diane.a.kazarian@ca.pwc.com](mailto:diane.a.kazarian@ca.pwc.com)



**John Ingold**  
Partner, Consulting & Deals  
416 815 5095  
[john.h.ingold@ca.pwc.com](mailto:john.h.ingold@ca.pwc.com)



**John MacKinlay**  
National Financial Services  
Consulting & Deals Leader  
416 815 5117  
[john.mackinlay@ca.pwc.com](mailto:john.mackinlay@ca.pwc.com)



**Ryan Leopold**  
Partner, Assurance  
416 869 2594  
[ryan.e.leopold@ca.pwc.com](mailto:ryan.e.leopold@ca.pwc.com)



**Rahoul Chowdry**  
Global and National Banking and  
Capital Markets Assurance Leader  
416 815 5059  
[rahoul.x.chowdry@ca.pwc.com](mailto:rahoul.x.chowdry@ca.pwc.com)



**Jonathan Riva**  
Partner, Consulting & Deals  
416 815 5069  
[jonathan.riva@ca.pwc.com](mailto:jonathan.riva@ca.pwc.com)



**Jason Boggs**  
Partner, Consulting & Deals  
416 941 8311  
[jason.boggs@ca.pwc.com](mailto:jason.boggs@ca.pwc.com)



**Rani Turna**  
Partner, Consulting & Deals  
416 869 2911  
[rani.turna@ca.pwc.com](mailto:rani.turna@ca.pwc.com)