

News Release

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**‘TOO MUCH REGULATION’ TOPS BANKING BANANA SKINS POLL
FOR SECOND YEAR
Index shows market anxiety returning to record level**

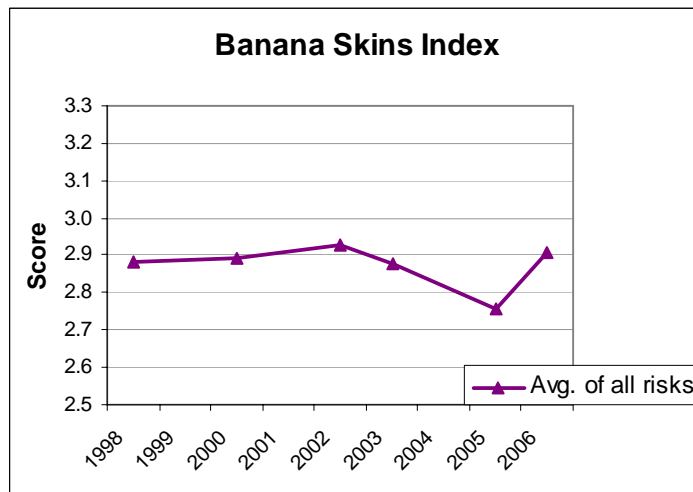
Regulatory overkill is identified as the greatest risk facing the financial sector for the second year running by the CSFI’s Banking Banana Skins survey of banking risks, in association with PricewaterhouseCoopers LLP.

Respondents from 60 countries said that too much regulation was endangering the financial health of banks with its cost burden and distractions, as they did in the 2005 survey. But this time, many of them added their concern about growing political interference by governments seeking to influence banks’ behaviour and obstruct free markets.

Banking Banana Skins 2006	
(2005 position in brackets)	
1.	Too much regulation (1)
2.	Credit risk (2)
3.	Derivatives (4)
4.	Commodities (14)
5.	Interest rates (12)
6.	High dependence on technology (8)
7.	Hedge funds (5)
8.	Corporate governance (3)
9.	Emerging markets (15)
10.	Risk management techniques (9)
11.	Fraud (6)
12.	Equities (18)
13.	Currencies (7)
14.	Macro-economic trends (10)
15.	Political shocks (22)
16.	Conflicts of interest (-)
17.	Banking market overcapacity (20)
18.	Money laundering (13)
19.	Merger mania (27)
20.	Legal risk (17)
21.	Business continuation (19)
22.	Retail sales practices (23)
23.	Insurance sector problems (11)
24.	Back office (26)
25.	Environmental risk (28)
26.	Management incentives (21)
27.	Rogue trader (24)
28.	Competition from new entrants (29)
29.	Payment systems (25)
30.	Too little regulation (30)

The survey result suggests that efforts by governments and regulators to ease the regulatory burden have yet to bear fruit. John Hitchins, UK Banking Leader at PricewaterhouseCoopers LLP, said: “The financial sector is again throwing down a challenge to the regulators as to whether they have the right balance of cost and benefit.”

This year’s survey coincides with a period of heightened volatility in the financial markets, and this is reflected in the Banana Skins Index, a newly compiled measure of market anxiety based on the survey’s results. This year, the Index shows a sharp uptick, bringing it close to its record high in the wake of the dotcom market crash in 2000-2002.



Top of the sharp risers in this year’s Banana Skins are commodity markets (up from 14th place to 4th) on the back of energy concerns and volatile raw material prices. Concerns about countries such as China and India also pushed emerging markets up the list, from 15th place to 9th. Among other market risks, equities and interest rates gained several places.

As in previous years, concerns about credit risk, derivatives and hedge funds also featured high in the table. The feeling is widespread that financial markets have had it too good for too long, and are ceasing to apply the same rigorous standards as before. The ready availability of credit, abundant liquidity and growing capacity in the sector are driving down margins and forcing banks to take ever greater risks to protect their revenues.

Another area of rising concern is the banks growing dependence on technology for the safety and soundness of their business. With the growing sophistication of hackers and the vulnerability of distributed systems to attack, there are questions about the ability of banks to manage their increasingly hi-tech operations.

But against that, some previously high-ranking Banana Skins have eased. In the area of financial crime, both fraud and money laundering fell several places, mainly because of the number of initiatives now in place to deal with these issues. The level of concern about the general economic outlook also eased: although many respondents saw signs of fragility in the global economy, the broad feeling was that growth would be maintained.

Banks are also seen to be better placed to handle shocks in the system. This year, 64 per cent of respondents thought institutions were moderately well prepared or better able to handle the risks, up from 57 per cent last year. Confidence was particularly strong among bankers (73 per cent), but also among regulators (63 per cent), up sharply from 39 per cent last time. Outsiders were more sceptical: only 44 per cent thought banks were well prepared.

David Lascelles, the CSFI's co-director who wrote the report, said: "This year's results tell us that people are becoming more anxious about the financial outlook, and the damage that this could do to banks. But we are not yet at the point where risks are becoming life-threatening."

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Notes to Editor

1. For further information please contact Andrew Hilton, CSFI, on +44 (0)20 7493 0173 or Stephanie Peters, PricewaterhouseCoopers LLP, on +44 (0)20 7212 6917
2. Copies of the report can be purchased from the CSFI on +44 (0) 20 7493 0173 or from CSFI's online store at www.bookstore.csfi.org.uk
3. The Banking Banana Skins survey was conducted in April and May 2006, and is based on 468 responses from 60 countries.

The breakdown of respondent by type was:

		%
Bankers	269	57
<i>of which - chairmen/directors/CEOs</i>	<i>47</i>	
<i>- risk officers</i>	<i>100</i>	
<i>- line managers</i>	<i>80</i>	
Non-bank businesses	57	13
Regulators	24	5
Observers	118	25
Total	468	100

4. The CSFI (Centre for the Study of Financial Innovation) is a non-profit think-tank, founded in 1993, which looks at challenges to and opportunities for the financial sector. It has an affiliate organisation in New York, the New York CSFI.
5. The member firms of the PricewaterhouseCoopers network provide industry focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 130,000 people in 148 countries across our network work collaboratively using connected thinking to develop fresh perspectives and practical advice.

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