
News release

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Global banking industry names regulation & political interference as top risks over macro-economic concerns.

The leading risks in Slovakia are focused on the strength of banks: the availability of capital, credit risk and the tendency to under-price risk.
'Banana Skins' poll identifies top threats to banks

Tuesday, April 29, 2014 - Regulation and political interference topped the list of risks among the global banking industry (No.1 and No.2 respectively) – replacing 2012's leading threat, the macro-economic environment, according to the [Banking Banana Skins](#) 2014 survey released today.

The CSFI's biennial [Banking Banana Skins survey](#), produced in association with PwC, revealed the overwhelming message from respondents: the weight of new regulation is becoming excessive and could dampen economic recovery and growth. The poll is based on responses from more than 650 bankers, banking regulators and close observers of the banking industry in 59 countries, including Slovakia.

Political interference was also specified by respondents as causing more costs and constraints to the banking sector. Some of the strongest concerns around political interference come from Europe – where extensive measures have been proposed or adopted at both the EU and national levels to make banks safer.

However, the survey also shows that anxiety about the outlook for banks has started to decline for the first time in seven years, suggesting that the operating climate for banks is finally turning.

The poll shows that concerns expressed in earlier surveys about capital availability, liquidity, credit quality and exotic products in the banking system have begun to ease. Although confidence about the macro-economic outlook has also strengthened, the survey reveals strong ongoing concern about the stability of the Eurozone, and rising worries about emerging markets, particularly China where the banking system is seen to be under stress. The outlook for the tapering of quantitative easing by central banks is widely seen as crucial to global economic prospects.

A fast-rising risk in the Banana Skins ranking is technology risk, which has risen from No. 18 to No. 4, largely on the back of strengthening concern about cybercrime. This is a problem which, as one respondent said: "can only get bigger" and cost banks heavily both financially and reputationally. Technology concerns also centre on back office systems which are seen to be ageing but also a low priority for investment.

A breakdown of responses shows that all major respondent types (bankers, observers and risk managers) are strongly concerned about regulatory excess and political interference, as well as the state of the global economy. However non-bankers are more worried about institutional risks in banks such as the quality of governance and management; bankers play these risks down.

By region, the responses show concern about regulation and politics to be strongest in Europe and North America. The top concerns in the Asia Pacific region focus more on the macro-economy and the risk of sharp changes in interest rates.

"Although there are encouraging signs in this survey, respondents' concerns around over regulation need to be taken seriously. It would be ironic if new banking rules ended up snuffing out the recovery," said David Lascelles, the survey's editor from CSFI.

Global Financial Services Risk Leader, Dominic Nixon, PwC, explained, *"While some respondents viewed the growth of regulation as necessary, we need to carefully look at the potential unintended costs and consequences it may produce. Onerous regulation could slow profitability and innovation-during a time when the banks' contribution to the global economic recovery is most needed."*

Top risks of banks in Slovakia

Radoslav Ratkovský, manager and specialist for financial sector in PwC Slovakia, comments the ranking that was created based on the responses of banks in Slovakia:

„The Slovakian response showed a different order of concerns from the global ranking. The leading risks are focused on the strength of banks: the availability of capital, credit risk and the tendency to under-price risk in response to the forces of competition. Concern about derivative risk remains high. All this, in an uncertain economic environment in Europe.

On the other hand, there was less concern in Slovakia about the burden of regulation and political interference which dominated the global rankings. Other risk areas which ranked lower included technology risk and the associated risk of criminality and cyber-crime.“

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

Higher concerns:

- Pricing of risk. Concern about under-pricing. One banker said: *"In order to fulfil their goals banks have to undertake higher risks on an ongoing basis".*
- Capital availability. New regulatory demands have left the supply of capital "too thin", according to one respondent.
- Credit risk. Concern about both domestic and sovereign risk. There are *"too many problematic state bonds"*.
- Derivatives. *"Many products are too complex".*

Lower concerns

- Regulation. There is strong concern about the weight of new regulation, but it ranks lower than in other countries
- Political interference. Similarly, political interference is less of an issue in Slovakia.
- Technology risk. Weaknesses in payment systems, back office.
- Criminality is an identified risk issue, but relatively low ranking.

Banking Banana Skins 2014			
World (2012 ranking in brackets)		Slovakia (2012 ranking in brackets)	
1	Regulation (6)	1	Pricing of risk (19)
2	Political interference (5)	2	Capital availability (2)
3	Macro-economic environment (1)	3	Macro-economic environment (10)
4	Technology risk (18)	4	Credit risk (3)
5	Profitability (7)	5	Regulation (14)
6	Pricing of risk (11)	6	Derivatives (5)
7	Credit risk (2)	7	Profitability (4)
8	Corporate governance (9)	8	Quality of risk management (8)
9	Criminality (24)	9	Sales and business practices (20)
10	Capital availability (4)	10	Back office (17)
11	Quality of risk management (10)	11	Currency (16)
12	Interest rates (17)	12	Corporate governance (11)
13	Back office (13)	13	Liquidity (1)
14	Change management (15)	14	Political interference (7)
15	Liquidity (3)	15	Change management (24)
16	Sales and business practices (20)	16	Equity markets (21)
17	Emerging markets (22)	17	Interest rates (13)
18	Derivatives (8)	18	Technology risk (21)
19	Social media (-)	19	Commodity markets (30)
20	Shadow banking (-)	20	Management incentives (29)
21	Management incentives (14)	21	Reliance on third parties (28)
22	Currency (19)	22	Criminality (26)
23	Human resources (28)	23	Emerging markets (12)
24	Reliance on third parties (29)	24	Human resources (27)
25	Social sustainability (25)	25	Shadow banking (-)
26	Equity markets (21)	26	Social media (-)
27	Commodity markets (26)	27	Social sustainability (25)
28	Business continuation (12)	28	Business continuation (9)

Notes to Editor:

1. The CSFI's "Banana Skins" series provides periodic snapshots of the risk landscape in the financial services sector. As well as the banking series, the CSFI conducts surveys of the risks in insurance and microfinance.

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3. About The Centre for the Study of Financial Innovation (CSFI)



The Centre for the Study of Financial Innovation, founded in 1993, is an independent not-for-profit think tank based in London which researches the future of financial services. It has an affiliate in New York, New York CSFI. The CSFI has been producing regular Banana Skins surveys since 1995.

www.csfi.org.uk

4. About PwC

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