



Order returns...

An economic overview



Jeremy Anderson

The current outlook is the most stable we have seen for many months – the results of the stress tests in the US banking system seem manageable, government interventions in Western Europe are helping to stabilize the banking system and, in Asia, the most stressed geographies seem to be getting the support they need, says **Jeremy Anderson**.

As we talk to senior bankers and regulators there is a common view that a semblance of order and predictability has returned to the markets. Perhaps, most importantly, there is now time to take more considered and collaborative decisions about what to do to re-build for the future.

The increasing confidence and potential optimism this brings are fundamental to making progress, though we should be careful not to assume that the next few years will be easy. Many commercial and retail bankers remain very concerned about the likely scale of credit losses and provisions, with many expecting 2010 to be worse than 2009. Commercial real estate lending could create headaches for banks in many parts of the world as rents, yields and the value of property weakens. There is much 'unwinding' of government intervention to be done over the next few years as debt issuance guarantees are removed, government shareholdings in banks are sold, and toxic assets in bad banks and government insurance schemes are wound down in an orderly manner.

The wall of regulatory change hitting the industry is likely to not only bring additional rules, but will also challenge the viability of some existing business units as capital and liquidity requirements become more onerous. It remains to be seen whether national territorial regulatory approaches will prevail, reducing the efficiency of capital and funding for global banks, or whether global regulatory collaboration can produce a simpler and less costly regulatory and reporting environment.

But, despite the immediate and pressing impact of these challenges, we need to begin thinking about the future. The global economy needs an efficient and effective global banking system to transfer risk, provide credit and support global trade. This has been a facilitator and engine of global growth over recent decades, growth that has lifted many people out of poverty. We need the industry to be restored to full operation as soon as possible to help create wealth in both the developed and the developing economies. The banking industry has re-invented itself many times before and there should be no reason why it cannot do so again.

The same issues face the investment, savings and pensions industry. In those countries where public and private sector debt has soared, the responsibility for long term savings and pensions is going to have to pass back to the individual, leading to higher savings rates. There will be a great need for secure, stable and cost effective frameworks for people to build their wealth, whether for retirement or for a 'rainy day'.

While there has been widespread discussion of the rational issues which face us we should not forget to address the emotional aspects and, in particular, the 'war for talent'. To put the industry

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back on its feet the brightest and best people in the industry should be retained, as well as attracting new talent. Now we are asking many of our people to work harder than ever before while at the same time reducing compensation and rewards. Although the days of significant bonuses for 'Day 1 Profit & Loss' may have gone, we should be seeking to convince people that, as the industry rebuilds sustainable and predictable profit streams, it will again become a stimulating and rewarding career path for high caliber people.

Finally, we should not lose sight of the opportunities which still present themselves. Although many countries have suffered, and will suffer difficult economic conditions for some time, many areas of the world are less touched by the global crisis and still have healthy funding sources and growth in their economies. For those banks which have strong balance sheets, and are unencumbered by government or regulatory restrictions, there has never been a better opportunity to acquire assets at a reasonable price. The banking 'world order' may not change dramatically, but looking back in 10 years time we may well see that the winners are institutions that have managed to emerge most quickly from the current turmoil and capture those opportunities which present themselves.

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