

# *Banking Banana Skins 2012*

A New Zealand  
perspective

January 2012

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## **A New Zealand perspective**

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*We are pleased to present you with Banking Banana Skins 2012, a unique survey describing the risks currently 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. The survey was produced by the Centre for the Study of Financial Innovation in association with PwC.*

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**Complimenting this global survey and for the first time, we have produced this supplement outlining what the 22 New Zealand respondents see as key concerns (or Banana Skins) for the banking industry.**

### **Globally**

Looking at the global report as a whole, this is unquestionably the bleakest response seen in more than 13 years of Banking Banana Skins and highlights the huge uncertainty over the near-term. It also shows the certainty that changes will be needed to restore stability and growth in the longer term. The November and December 2011 poll of more than 700 respondents across 58 countries found anxiety levels in the financial system are now at an “unprecedented” high.

### **New Zealand’s perspective**

From a New Zealand perspective, the five key concerns identified were credit risk, liquidity, macro-economic risk, political interference and capital availability. Interestingly, these were the same top five concerns as identified in the global report, albeit in a differing order.

The New Zealand response was dominated by concern about the sovereign debt crisis, particularly in the Eurozone, and its potentially depressing impact on us and the global economy. Respondents reported a high sense of vulnerability to conditions on international markets, and many of them singled out funding as a key issue should liquidity and access to capital become more difficult.

The identification of credit risk as the highest Banana Skin by the New Zealand respondents is unsurprising and reflects the high level of impaired asset charges that have been recognised by the New Zealand banks since 2009. In fact, total impaired asset charges (including provisioning movements) for the five major retail banks in New Zealand over the last three financial years totalled \$3.9 billion, or 38% of net profit before tax.

The availability of funding was the second highest Banana Skin. Due to the size of the domestic funding market and the need to access funding from abroad, it is appropriate that this remains a high level concern in New Zealand. Overlaying this concern was the view shared by the New Zealand respondents that our New Zealand banks were well positioned to deal with any potential liquidity crunch.

Highlighting that the Eurozone crisis and the 2008 funding freeze were still front of mind here and was broadly summed up by one New Zealand respondent saying:

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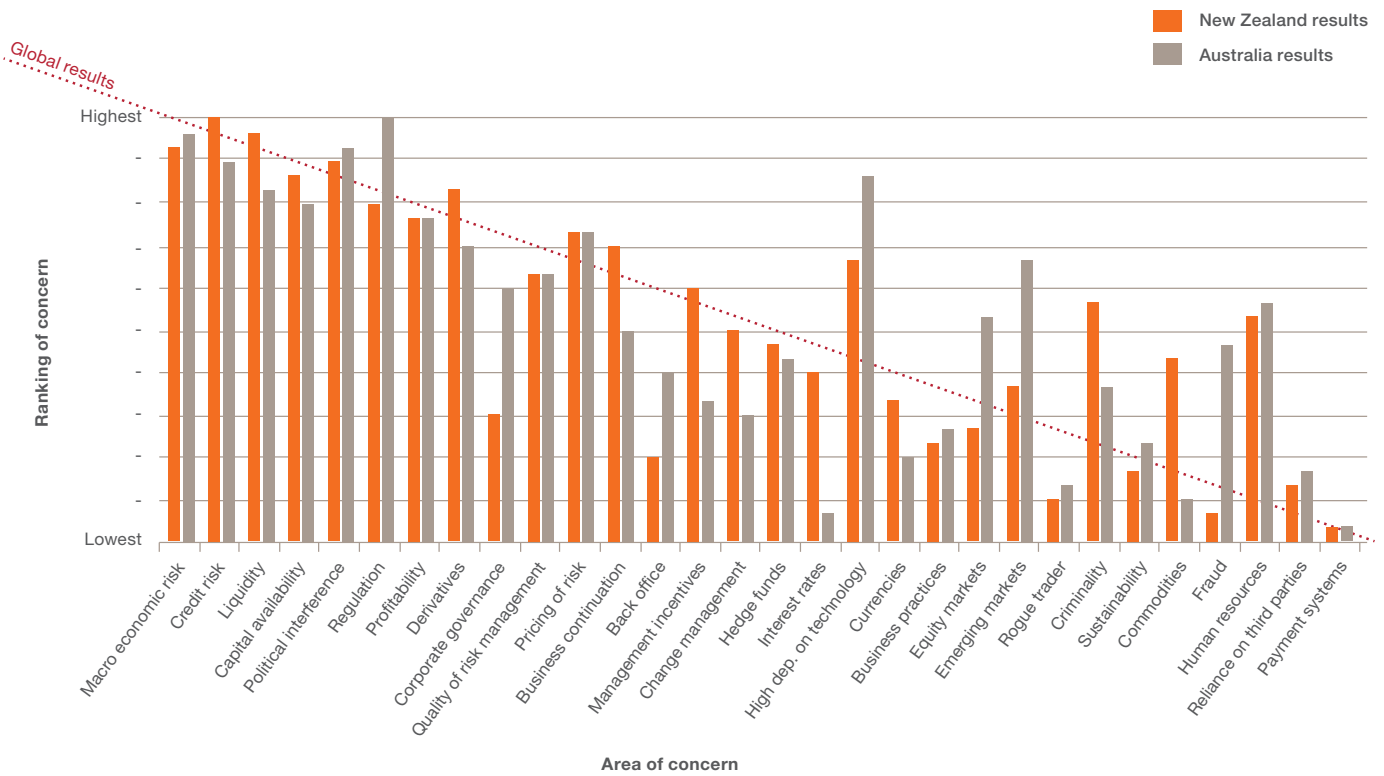
***“I have massive concerns about the true position of many banks, especially those with exposure to European sovereign debt. Another liquidity squeeze seems inevitable unless this problem is addressed with proper marked-to-market valuation followed by recapitalisation of those banks that require it.”***

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In comparing the results of this survey with our trans-tasman neighbours, the Australian response was particularly striking for its emphasis on regulatory and political risk. Australian respondents stated that regulation and interference were loading costs on banks and stifling the availability of credit. High dependence on technology was also a top five concern, reflecting where the Australian banks are at, with new IT platforms being built and new technology being developed.

In the graph below, we have presented the differing views on risks facing the global banking industry as ranked by the global, New Zealand and Australian survey participants. While there is a high level of correlation for numerous risks, there are outliers which make for interesting viewing.

Banking Banana Skins 2012: Global, New Zealand and Australia results



## ***The most marked differences between New Zealand and the rest of the world included:***

### ***Higher concerns:***

- **Funding:** A key issue for most respondents. “Liquidity and funding risks remain paramount, and are complicated by the shifting global landscape, sovereign debt issues, lower global economic growth and austerity measures that are yet to be taken across multiple geographies.”
- **High dependence on technology:** “Technology, and the creation of alternative methods of intermediation are significant risks to banks”.
- **Criminality (fraud, data theft, cyber-crime):** Viewed by some respondents as an increasing risk.
- **Human resources:** Although not viewed as a high risk, there was some concern about the stability of the staffing market.
- **Commodities:** Natural volatility concern for a resource-driven economy.

### ***Lower concerns***

- **Corporate governance:** Less concern than elsewhere about the size of the risks in this department, though still present.
- **Back office:** Not viewed as a major point of concern for NZ banks: seen as more applicable to the big multinationals.

### ***Some interesting observations when comparing the survey results between New Zealand and Australia respondents include:***

- **Regulation:** Higher concern for Australian respondents, possibly due to proposals to implement a package of reforms to strengthen capital and liquidity requirements.
- **Emerging markets:** The risk of China slowdown was ranked as having a larger impact on Australia.

The survey also indicated that the level of anxiety in the global banking market is at record highs, with the New Zealand respondents scoring 3.38 (out of a possible 5) versus a global score of 3.15, indicating a slightly heightened level of concern. However, this level of anxiety was still below that of the Australian respondents, who scored their anxiety levels at 3.68

When asked “How well prepared do you think banks are to handle the risks you have identified”, New Zealand scored 3.25 (identical to Australia) versus the global average of 2.96. This suggests that the New Zealand banks see themselves as among the better prepared to tackle the risks currently facing the industry.



# Top 30 Banana Skins

According to the survey, the top 30 'Banana Skins' identified by New Zealand, Australian and global respondents were:

## Banking Banana Skins 2012

New Zealand	Australia	World
1 Credit risk	1 Regulation	1 Macro economic risk
2 Liquidity	2 Macro-economic risk	2 Credit risk
3 Macro-economic risk	3 Political interference	3 Liquidity
4 Political interference	4 Credit risk	4 Capital availability
5 Capital availability	5 High dep. on technology	5 Political interference
6 Derivatives	6 Liquidity	6 Regulation
7 Regulation	7 Capital availability	7 Profitability
8 Profitability	8 Profitability	8 Derivatives
9 Pricing of risk	9 Pricing of risk	9 Corporate governance
10 Business continuation	10 Derivatives	10 Quality of risk management
11 High dep. on technology	11 Emerging markets	11 Pricing of risk
12 Quality of risk management	12 Quality of risk management	12 Business continuation
13 Management incentives	13 Corporate governance	13 Back office
14 Criminality	14 Human resources	14 Management incentives
15 Human resources	15 Equity markets	15 Change management
16 Change management	16 Business continuation	16 Hedge funds
17 Hedge funds	17 Fraud	17 Interest rates
18 Commodities	18 Hedge funds	18 High dep. on technology
19 Interest rates	19 Back office	19 Currencies
20 Emerging markets	20 Criminality	20 Business practices
21 Currencies	21 Management incentives	21 Equity markets
22 Corporate governance	22 Change management	22 Emerging markets
23 Equity markets	23 Business practices	23 Rogue trader
24 Business practices	24 Sustainability	24 Criminality
25 Back office	25 Currencies	25 Sustainability
26 Sustainability	26 Reliance on third parties	26 Commodities
27 Reliance on third parties	27 Rogue trader	27 Fraud
28 Rogue trader	28 Commodities	28 Human resources
29 Fraud	29 Interest rates	29 Reliance on third parties
30 Payment systems	30 Payment systems	30 Payment systems

# Get in touch



**David Bridgman**  
**Partner**

Tel: +64 9 355 8327  
david.bridgman@nz.pwc.com



**Bruce Baillie**  
**Partner**

Tel: +64 9 355 8043  
bruce.baillie@nz.pwc.com



**Chris Barber**  
**Partner**

Tel: +64 4 462 7127  
chris.j.barber@nz.pwc.com



**Lisa Crooke**  
**Partner**

Tel: +64 9 355 8143  
lisa.g.crooke@nz.pwc.com



**David Corbett**  
**Partner**

Tel: +64 9 355 8809  
david.r.corbett@nz.pwc.com



**Mark Russell**  
**Partner**

Tel: +64 9 355 8316  
mark.r.russell@nz.pwc.com



**Graeme Pinfold**  
**Partner**

Tel: +64 9 355 8531  
graeme.pinfold@nz.pwc.com



**Mike Schubert**  
**Partner**

Tel: +64 9 355 8649  
mike.s.schubert@nz.pwc.com



**Paul Skillender**  
**Partner**

Tel: +64 9 355 8004  
paul.skillender@nz.pwc.com



**Karen Shires**  
**Partner**

Tel: +64 4 462 7667  
karen.f.shires@nz.pwc.com



**Sam Shuttleworth**  
**Partner**

Tel: +64 9 355 8119  
sam.shuttleworth@nz.pwc.com



**Darryl Eady**  
**Partner**

Tel: +64 9 355 8215  
darryl.b.eady@nz.pwc.com

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