

News release

Donna Liew
Ernst & Young Solutions LLP
+65 6309 6129
donna.liew@sg.ey.com

Financial services: no return to growth until first half of 2010 at the earliest

- *32% of global FS companies see stagnation for at least another year*
- *Downturn has left permanent changes to risk management, regulatory framework and operating model*

SINGAPORE, 6 July 2009: The majority of global financial services companies expect no return to growth until the first six months of 2010 or even later, according to new Ernst & Young research published today.

Accelerating the change finds that while a third of the 125 global financial services respondents expected some expansion this year, 34% of those polled expect the return to growth to begin in the first six months of 2010, with 32% believing it would be further out.

As an indication of just how deep the recession is impacting the financial services sector, just over two thirds of those polled expect to increase the amount of time they spend on securing the future of their business.

The industry was clearly taken aback by the ferocity and depth of the downturn: 72% of respondents were surprised at the severity and 70% were surprised by the speed of the financial crisis. Only 30% had seen any improvement in their business over the last 12 months, compared to almost 50% that had not.

Tom McGrath, managing partner of Ernst & Young's EMEIA financial services business, comments: "The end of the recession and a return to profitability is a tough one for any industry

to call. But financial services are naturally more cautious – and possibly more realistic – about when the return to profitability might happen.”

The reorganization of the industry will be fundamental and it will vary by sector. However, managers are working hard to position their organizations to emerge stronger when the recovery comes – but there may well be some more casualties.”

Pennies being pinched, as profitability continues to decline

What is clear is the business-changing impact that the recession is having on the structure of financial services companies – and the toll it is taking on their bottom lines.

The majority (70%) of institutions have permanently changed their risk management strategy as a result of the crisis: 68% had implemented permanent differences to their regulatory framework and over half (54%) have changed their operating model. And it is easy to see why: almost six in ten financial institutions have seen their profitability decline and 56% have seen overall revenues decline in the same period.

Winston Ngan, Financial Services Leader for Ernst & Young in Singapore says: “Our observations in Singapore show that banks in particular are changing their risk management strategy and framework. The change is driven by both the need to respond to the crisis as well as the scheduled implementation of the Internal Capital Adequacy Assessment Process (ICAAP) under *Basel 2 Pillar 2* which requires local banks to strengthen their risk management framework. Financial institutions here are focusing on assessing the risk adjusted return of their businesses and reviewing staff remuneration structures as part of their risk management measures. In anticipation of declining revenue and profits, financial institutions are examining their own operating models to look for ways to drive effectiveness and cost efficiency. One such way is to streamline and standardize existing operating platforms, policies, procedures and controls across business lines and geographies.”

Based on the survey, 61% of respondents have had more opportunity to improve cost cutting in the last six months. Four in ten also plan to hive off their non-core or non-performing business.

Keith Pogson, managing partner for Ernst & Young's financial services business in the Far East, says: "Fierce competition, volatility in the capital markets and business complexity are key concerns for any large enterprises, but they weigh more heavily on global financial institutions."

Financial services clear on action from authorities

The sticky issue of pay and reward strongly divided respondents: 45% thought it needed more regulation while just under a third disagreed.

Financial services were also found to be broadly supportive of national and global initiatives aimed at stimulating the capital markets and easing the impact of the recession. However, only a third believed that their government should retain a stake in the financial services industry, with banking and insurance respondents the most skeptical suggesting that the time for bailouts may have come to an end.

Almost two thirds were inclined to agree that cooperation between international governments had played a central role in helping domestic and international economies in the last 12 months. Two thirds were supportive of their national governments economic policies in the past six months and half of the respondents believed their governments were powerful enough to solve their economy's woes although a distinct minority (29%) felt they were ineffective in the face of the global recession.

Carmine DiSibio, managing partner for Ernst & Young's Americas Financial Services Office, comments: "The financial services industry has been battered, but will certainly emerge from this recession stronger and healthier, with more focus on risk management. As the industry recovers, we are likely to see changes in operating models and regulatory frameworks. It's likely to be a new world, and financial services firms will find their way together."

Ends

About this report

For this study, the Economist Intelligence Unit surveyed 569 C-suite and board level executives. Respondents were drawn from across the world and across industry sectors. Over half the executives polled worked for companies with annual global revenues in excess of US\$1 billion. The research was carried out in June 2009.

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