

Focus on: financial services

International Business Report 2009 – Sector focus series

The Grant Thornton International Business Report (IBR) 2009 reveals that privately held businesses (PHBs) in the financial services sector are markedly less confident regarding economic prospects for the year ahead than they were in 2008, dramatically affecting the 'big decisions' these businesses have to make. In 2008 a net balance¹ of +31 per cent were optimistic compared to -9 per cent this year. Across all sectors, businesses are also less optimistic (-16 per cent) than in 2008 (+40 per cent).

IBR 2009 has examined the optimism of privately held businesses across eight sectors which we are pleased to share through our sector focus series.

Of the eight sectors, hospitality is the most buoyant with an optimism/pessimism balance of just +2 per cent; ahead of technology (-7 per cent), financial services (-9 per cent), health and education (-19 per cent), manufacturing (-19 per cent), construction and real estate (-20 per cent), retail (-20 per cent) and transport (-39 per cent).

This series will provide key findings, insights into specific national market sectors and our perspective on the outlook for each sector. It will also suggest tactics businesses should consider in the current economic climate.

If you have 'big decisions' you need help with, please visit www.gti.org. For more information on IBR, visit www.internationalbusinessreport.com

The financial services sector

The upheaval in global markets has created a climate of great uncertainty for the financial services sector. Many large banks in mature economies are burdened with toxic debts and have suffered huge losses. Widespread government bail-outs have

averted a collapse of the banking system, but the institutions' liquidity, funding and capital crisis is yet to be resolved. The deepening and widening of the global recession in the early months of 2009 raised fresh fears about the balance sheets of many western banks.

While the focus of concern is on major financial institutions and the consequences of the imprudent policies they pursued during the boom, a variety of non-banking businesses are included in this sector, whose experience has been less painful. It seems that many smaller financial businesses, including the PHBs included in our survey, have escaped the worst of the fall-out. Responses to survey questions regarding business performance such as turnover and profitability are among the most upbeat among all sectors. Though the problems facing these businesses can be substantial in the current environment, the adoption of more cautious strategies during the upturn, involvement in non-banking financial products and a position in niche markets may be enabling them to ride out the storm.

The situation of financial institutions in emerging economies is also less dire than in the major western countries although the collapse of stock markets in the BRIC economies (Brazil, Russia, India and mainland China) and some other emerging markets, along with a rapidly contracting economic output, illustrates that they have by no means escaped the fall-out from the malaise in the more mature economies.

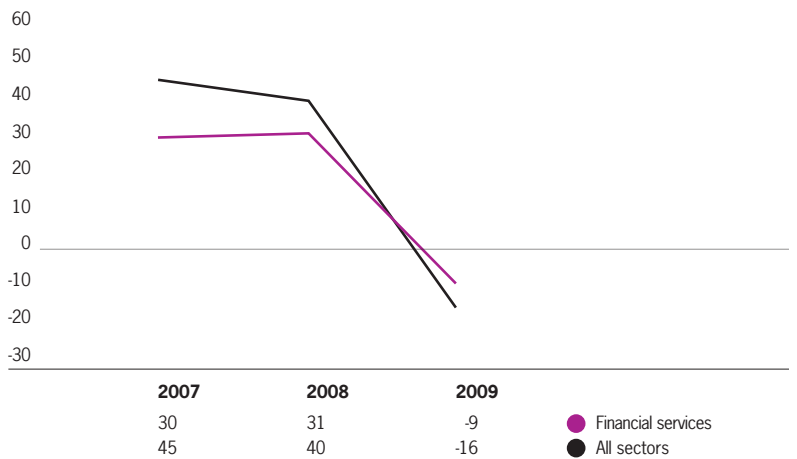


¹the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Optimism/pessimism

- PHBs in the financial services sector are considerably less optimistic about their country's economic outlook (-9 per cent) compared with 2008 (+31 per cent)
- across all sectors, levels of optimism regarding economic outlook are down 56 percentage points compared with 2008.

Figure 1: Outlook for the economy over the next 12 months: 2007-2009
Average percentage balance of businesses indicating optimism against those indicating pessimism

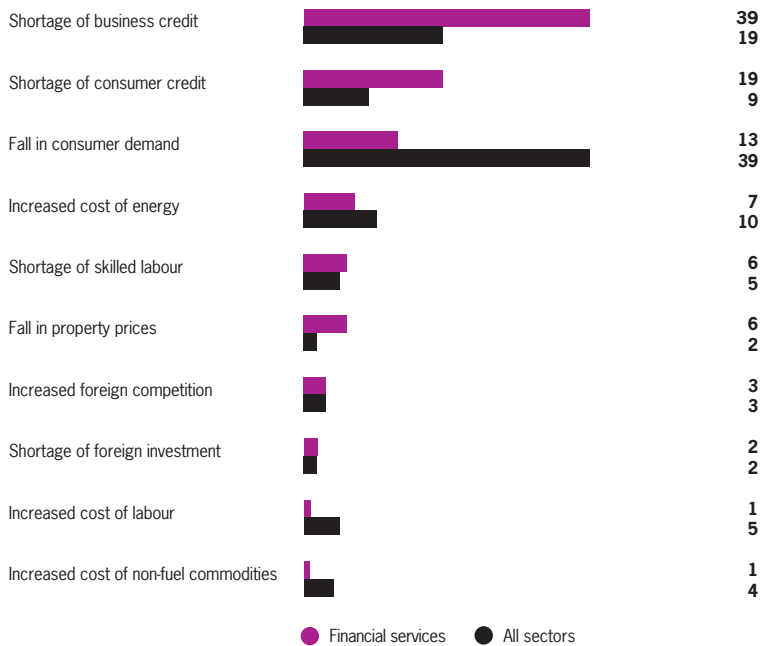


Source: Grant Thornton IBR 2009

Greatest concern

- shortage of business credit is viewed as the greatest concern restricting expansion for PHBs in the financial services sector at 39 per cent. This is more than double the average for all sectors (19 per cent)
- shortage of consumer credit is also of greater concern to PHBs in the financial services sector (19 per cent) than for businesses in all sectors (9 per cent)
- a fall in consumer demand is cited by a much larger proportion of PHBs in all sectors (39 per cent), than by those in the financial services sector (13 per cent).

Figure 2: Greatest concern in the next 12 months
Average percentage of business



Source: Grant Thornton IBR 2009



Hervé Grondin
Grant Thornton, France

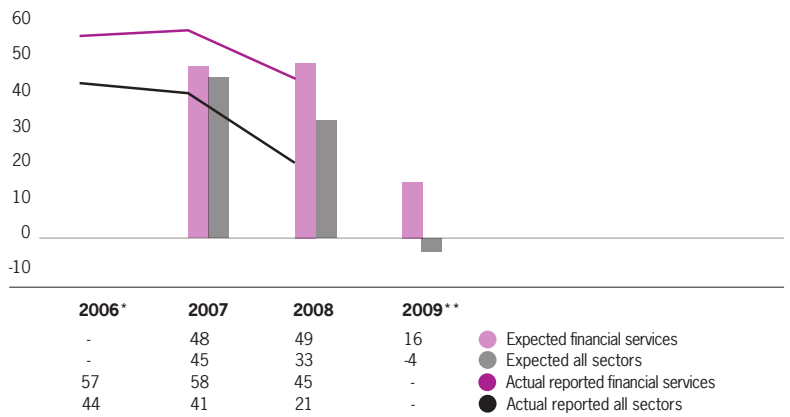
“In France, there are calls to double up all the risk management techniques. As we have seen, there is a problem regarding risk management of the banks and the regulators of the banking industry, it's therefore clear that we need to have a completely new approach to risk management in order to help prevent a crisis of this magnitude occurring again.”

Employment

- similarly to businesses in all sectors, expected employment growth in the financial services sector has fallen sharply; from +49 per cent in 2008 to +16 per cent in 2009
- across all sectors, PHBs expect employment to contract sharply; from +33 per cent in 2008 to -4 per cent in 2009.

Figure 3: Employment history: 2007-2009

Percentage balance of businesses



*expected data for 2006 not available

**actual data for 2009 will be available in IBR 2010

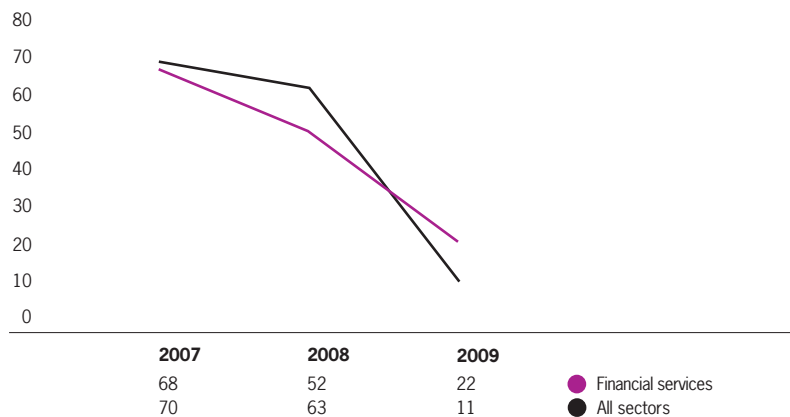
Source: Grant Thornton IBR 2009

Revenue expectations

- PHBs in the financial services sector are much less optimistic about their revenue prospects (+22 per cent) compared with 2008 (+52 per cent)
- levels of optimism regarding revenue prospects in all sectors are down 52 percentage points compared with 2008.

Figure 4: Revenue expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009



Andrew Lam
Grant Thornton, Hong Kong

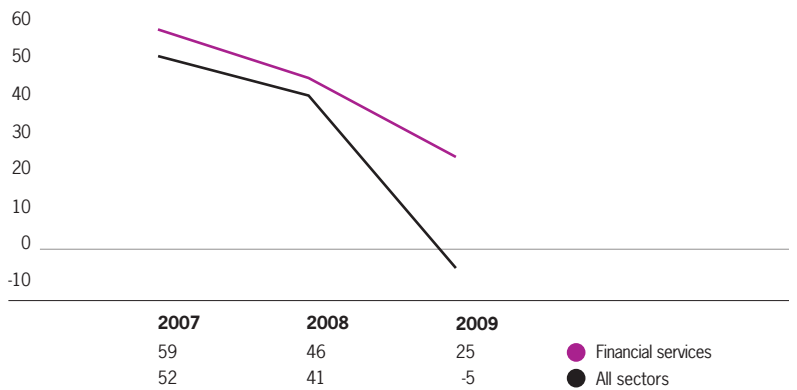
“In the past, mainland China has performed very well, but even though the GDP growth rate has slowed down, they are still achieving something around eight per cent growth which is still higher than many economies. Businesses in the region will look to benefit from this growth while also seeking opportunities further afield to work with other mature and emerging markets to reduce the dangers of over reliance on one economy.”

Profitability expectations

- PHBs in the financial services sector are less optimistic about their profitability prospects (+25 per cent) compared with 2008 (+46 per cent)
- across all sectors, levels of optimism regarding profitability performance are down 46 percentage points compared with 2008
- optimism levels amongst PHBs in the financial services sector show a much shallower decline of 21 percentage points.

Figure 5: Profitability expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



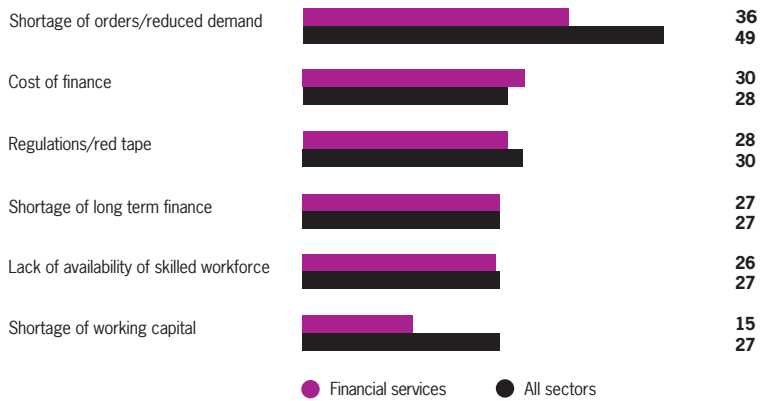
Source: Grant Thornton IBR 2009

Constraints

- a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs both in the financial services sector (36 per cent) and in all sectors (49 per cent)
- a shortage of working capital is cited by just 15 per cent of PHBs in the financial services sector, compared with 27 per cent of businesses across all sectors.

Figure 6: Constraints on expansion

Average percentage of business rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2009



Ramón Galcerán
Grant Thornton, Spain

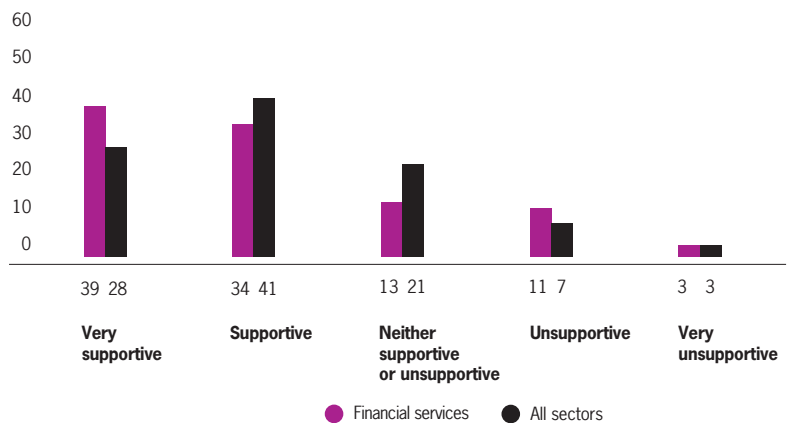
“The Spanish economy is still experiencing a deep lack of liquidity. This is constraining both the corporate and consumer markets causing a great deal of liquidity and credit defaults. Many banks are not willing to provide much needed liquidity, companies are faced with uncollectable balances and credit insurance companies no longer want to insure the credit. It’s a vicious circle that is worsening the situation more and more.”

Support of lender

- 73 per cent of PHBs in the financial services sector class their lenders as either very supportive or supportive towards their business. This is above the average in all sectors (69 per cent)
- 14 per cent of PHBs in the financial services sector class their lenders as either unsupportive or very unsupportive towards their business. This is slightly above the average in all sectors (10 per cent).

Figure 7: Level of support provided by lenders

Percentage of businesses



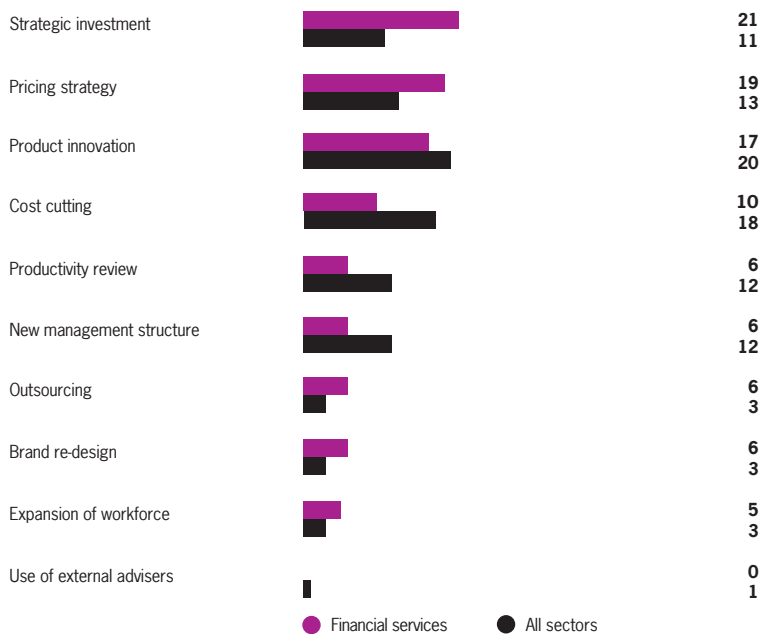
Source: Grant Thornton IBR 2009

Business planning

- strategic investment is the most successful initiative put in place by PHBs in the financial services sector to increase profitability (21 per cent)
- across all sectors, product innovation has been the most successful initiative (20 per cent)
- cost cutting has been considerably more successful across all sectors (18 per cent), than in the financial services sector (10 per cent).

Figure 8: Successful initiatives that have been put into place to increase profitability

Percentage of businesses



Source: Grant Thornton IBR 2009



Dana Ward
Grant Thornton, United Kingdom

“Many financial services businesses tend to benefit from an upturn due to the direct correlation between revenues and increased transaction volumes or asset values. As long as they can weather the storm and effectively cut costs without losing their competitive edge, many businesses in the sector will emerge strongly in the upturn.”

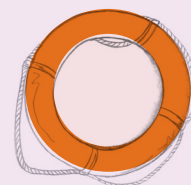
Outlook

Governments and central banks have taken unprecedented measures to restore confidence in the financial system and to limit the impact on the real economy of the crisis. But the next 12 months will be very difficult for much of the sector amid an uncertain economic outlook with employment in the sector likely to contract further as the impact of consolidation and bank failures take their toll.

Niche players may, however, be able to avoid the worst of the downturn. Some specialist financial service providers are already capitalising on the release of skilled employees by large firms and are establishing a platform for future growth when conditions improve. As the global recovery, expected to begin towards the end of 2009 or early 2010, gathers pace, growth of personal financial assets is likely to resume at a steady pace in mature economies and rapidly in emerging markets. This suggests a renewed period of steadily growing demand for financial services. A more risk-averse but resilient financial sector will grow by managing this wealth, and providing essential services - pensions, loans and insurance - while meeting rising consumer sophistication, developing new products and capitalising on technological advances. Eventual global recovery, while not matching the pace of the 2002-07 boom, will also underpin renewed demand for corporate financial services.

Tips for survival

- keep business simple
- keep a healthy amount of liquidity at hand
- eliminate unwarranted spending
- do not over leverage investments
- focus on anti-circular services eg risk, recovery and restructuring
- pay special attention to uncollectible/doubtful balances
- lower fixed costs eg cheaper premises/cut floor space.



Reasons to be cheerful

- people are coming back into the market
- stock markets appear to be slowly recovering
- low prices are common in every sector of the marketplace
- lots of new businesses are starting up
- the finance sector tends to benefit in any upturn
- most cost-cutting/streamlining is already completed
- the worst of the credit crunch has passed.



Jack Katz
Grant Thornton, United States

“The tides are starting to change and we are seeing an increase of investors going back into the marketplace, it’s a slow pace but it is changing for the better. Investors are taking advantage of the significant downturn in market and purchasing undervalued securities, distressed securities and are looking at private equity opportunities.”

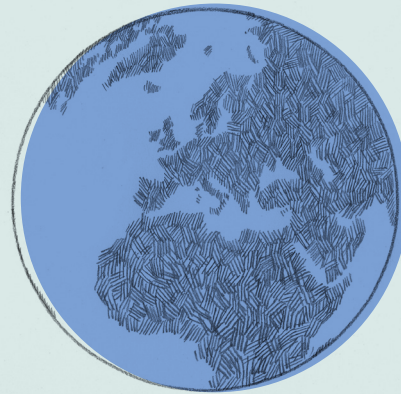
The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com

The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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