

PRESS RELEASE

Banks are in recovery but there are material threats to future health

- *Short term strong performance could be stimulus induced “morphine high”*
- *Regulatory environment remains uncertain*

LONDON, 27 JANUARY 2010 – Despite the financial industry’s recovery from the crisis of 2008, there are still threats to its long term wellbeing, finds Oliver Wyman’s 13th annual State of the Financial Services industry report, issued today at the World Economic Forum in Davos.

“The crisis was the financial equivalent of a major medical trauma. Although the intensive care provided by governments and central banks helped most financial institutions survive, the industry is still in recovery,” commented Scott McDonald, CEO, Oliver Wyman Financial Services. “The long term health of financial institutions remains uncertain, especially given President Obama’s proposals for restructuring the industry.”

The report uses this medical metaphor to examine the state of the financial services industry. Most financial institutions are now in the “convalescence” phase of recovery. Central banks are providing them with a congenial environment in which they can rebuild their capital strength. And regulators are delaying the introduction of new regulatory burdens until the banks are strong enough to bear them.

The report shows that financial firms have recovered 57% of market value losses. However, the massive transfusion of debt between household and corporate to public debt of up to 70 per cent means these “green shoots” may be “astroturf”. The ratio of debt to GDP has begun to fall in some countries but consumer leverage of financial assets has increased in most countries.

The report states that financial firms’ longer term future remains uncertain and that a relapse is a possibility. It will depend on the regulatory environment in which they will operate and on the health of the real economy. There is a 32 per cent chance of a “double dip” or W-shaped recession, according to CEOs surveyed and 60% do not expect serious economic recovery until 2012 or later. Their average expectation for their firms’ long run growth is 8%, down from the pre-crisis rate of 12%.

Several factors cited in the report show CEOs may be over-optimistic. Governmental responses to the crisis confirmed the “too big to fail” assumption that removes market disciplines from risk-taking; losses in many European portfolios are yet to be confronted; the threat of sovereign defaults looms; the withdrawal of fiscal stimulus may cause a return to recession; and excessive faith is being placed in regulatory capital as a source of systemic stability.

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Notes to editors

About Oliver Wyman

Oliver Wyman is the leading global management consultancy, combining deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm works with clients across a range of industries to deliver sustained shareholder value growth. We help managers to anticipate changes in customer priorities and the competitive environment, and then design their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. For more information, visit www.oliverwyman.com.

About the report

The report, in its 13th year, reviews the industry's performance and provides senior stakeholders with key insights into the financial services industry. The report also draws upon Oliver Wyman's unique and proprietary Shareholder Performance IndexSM (SPI) and the annual CEO Survey. The SPI is a measure of relative medium-term shareholder performance covering the 400 largest quoted financial services firms. The annual CEO Survey gathered expectations for 2010 from CEOs of nearly 70 major financial services institutions globally.

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