Biannual Financial Services Barometer

October 2016
# Approach

**Perspectives on challenges, opportunities and emerging trends in the financial system**

<table>
<thead>
<tr>
<th><strong>Who we surveyed</strong></th>
<th>Respondents from the general population in four major western market economies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How many we surveyed</strong></td>
<td><img src="https://via.placeholder.com/50" alt="American flag" /></td>
</tr>
<tr>
<td><strong>How we surveyed them</strong></td>
<td>Online data collection in English, French and German</td>
</tr>
<tr>
<td><strong>Survey timing</strong></td>
<td>April 12 – 22, 2016</td>
</tr>
<tr>
<td></td>
<td>September 8 – 15, 2016</td>
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</tbody>
</table>
**Key Findings**

**Eight years post-crisis, anxiety persists**
- Low confidence in banks and institutions
- Most think another financial crisis is likely
- Economic recovery seen as incomplete and unstable

**Regulation attractive but not impactful**
- Strong desire for additional regulations
- Financial regulation is a popular political position
- Regulations seen as having little impact on deposit safety

**Desire for smaller, local banks but also multiple services**
- Growing preference for non-profit banks
- Community banks seen as having best approach
- Consumers want small and local, but also banks that offer multiple services

**Uncertain implications of Brexit**
- Uncertain economic impact
- Strong preferences for banks to have a seat at the table
- No consensus about the future financial capital

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Eight years on from the financial crisis, economic anxiety persists
Confidence in Institutions

In a low-confidence environment, banks rank low on the list compared to other institutions.

Level of Confidence in U.S. Institutions

Gallup Survey from July 1-5, 2016
Economic Recovery

Most think that neither the global economy nor their domestic economy has fully recovered from the crisis.

To what extent do you think the global economy recovered from the 2008 financial crisis?

- **Fully Recovered**
- **Not Fully Recovered**
- **Not Recovered**

58% | 66% | 61% | 68%

To what extent has your own country’s economy recovered?

- **Fully Recovered**
- **Not Fully Recovered**
- **Not Recovered**

58% | 67% | 57% | 62%
Global Economic Stability

Many still see the global economy as unstable due to growing inequality, too much consumer debt and insufficient regulation of financial institutions.

Is the global economy **stable** or **unstable**?

Growing inequality in many countries
- 25%
- 25%
- 46%
- 37%

Too much consumer debt
- 32%
- 22%
- 22%
- 10%

Insufficient regulation of financial institutions
- 18%
- 22%
- 22%
- 32%

Political uncertainty around the U.S. Presidential election
- 15%
- 8%
- 5%
- 16%

Too much regulation of financial institutions
- 9%
- 2%
- 2%
- 1%

Consequences of Brexit
- 1%
- 20%
- 3%
- 5%

**Most Prominent Cause of Instability**
Performance of the Financial System

In each country, the financial system’s performance is underwhelming, with most rating it poorly or neutral.

Overall, how would you say the **FINANCIAL SYSTEM** in your country is performing?

**Well, Neither Well Nor Poorly, Poorly**

**FINANCIAL SYSTEM**: the system that allows the exchange of money between borrowers, lenders and investors. This includes financial institutions [e.g. central bank, consumer banks, commercial banks, credit unions, insurance companies], financial markets [e.g. stock exchanges] and financial instruments [e.g. assets, securities, bonds].
Likelihood of Another Financial Crisis

A large majority expect another global financial crisis. If it comes, they would place blame on banks and politicians.

How likely do you think it is that another global financial crisis will take place in the next five years?

Likely, Not Likely

Who will be blamed in a crisis?

Would you categorize the current global economic environment as:

What among the following is the most prominent cause of this instability in the global economic environment?
Steps to Prevent Another Crisis

To mitigate the risk of another crisis, consumers want banks to focus on sound investments, following the law and executive pay.

<table>
<thead>
<tr>
<th>Most helpful in preventing another crisis</th>
<th>USA</th>
<th>UK</th>
<th>France</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoiding risky investments</td>
<td>64%</td>
<td>66%</td>
<td>72%</td>
<td>70%</td>
</tr>
<tr>
<td>Preventing illegal employee activity</td>
<td>41%</td>
<td>49%</td>
<td>38%</td>
<td>43%</td>
</tr>
<tr>
<td>Limiting executive pay</td>
<td>41%</td>
<td>46%</td>
<td>42%</td>
<td>50%</td>
</tr>
<tr>
<td>Holding more money in reserve</td>
<td>40%</td>
<td>47%</td>
<td>34%</td>
<td>29%</td>
</tr>
<tr>
<td>Increasing data security</td>
<td>45%</td>
<td>29%</td>
<td>36%</td>
<td>27%</td>
</tr>
<tr>
<td>Conducting regular stress tests</td>
<td>18%</td>
<td>24%</td>
<td>33%</td>
<td>25%</td>
</tr>
<tr>
<td>Limiting the size of banks</td>
<td>24%</td>
<td>16%</td>
<td>18%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Below are some examples of what some people say are steps banks can take to prevent another financial crisis. Which THREE of the following do you believe would be most helpful in preventing another financial crisis?
Additional regulations are seen as politically attractive but ultimately not impactful.
Political Motivations

Bank regulation is a powerful political motivator.

% would base their vote in a national election on the issue of bank regulation

- 64%
- 64%
- 65%
- 60%

% would vote for candidate/party who supported more regulations on banks

- 73%
- 86%
- 85%
- 84%
Yet additional regulation of the financial system is not seen as particularly effective. Few think it leads to more security or stronger growth.

**Do you believe that additional government regulation of the financial system in [COUNTRY] would make investments and deposits in banks:**

**What impact do you think additional government regulation of the financial system in [COUNTRY] would have on economic growth?**

**Additional Regulations Would Make Deposits Safer**

- **April:** 49%, 50%, 46%, 47%, 40%, 48%, 41%
- **September:** 40%, 35%, 30%, 30%, 29%, 23%, 27%

**Additional Regulations Would Lead to Stronger Growth**

- **April:** 35%, 30%, 30%, 30%, 30%, 29%, 27%
- **September:** 19%, 22%, 22%, 22%, 22%, 22%, 22%
There is an increasing desire for smaller, local banks
Preferred Bank Type and Size
There is a growing preference across all countries for smaller, more personal, community banks.

Which one of the following do you view most favorably?

Small [COUNTRY]-based banks operating in local communities
Large [COUNTRY]-based banks operating throughout [COUNTRY] as well as internationally
Foreign banks operating in [COUNTRY] as well as internationally

<table>
<thead>
<tr>
<th>Country</th>
<th>Small Banks</th>
<th>Large Banks</th>
<th>Foreign Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>57%</td>
<td>65%</td>
<td>31%</td>
</tr>
<tr>
<td>September</td>
<td>38%</td>
<td>37%</td>
<td>48%</td>
</tr>
<tr>
<td>April</td>
<td>57%</td>
<td>47%</td>
<td>37%</td>
</tr>
<tr>
<td>September</td>
<td>57%</td>
<td>48%</td>
<td>39%</td>
</tr>
<tr>
<td>April</td>
<td></td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>September</td>
<td></td>
<td>48%</td>
<td>56%</td>
</tr>
<tr>
<td>April</td>
<td></td>
<td>43%</td>
<td>43%</td>
</tr>
<tr>
<td>September</td>
<td></td>
<td>50%</td>
<td>55%</td>
</tr>
</tbody>
</table>
Preferred Bank Organization
Many, if not most, say they prefer banks to be run as a non-profit organization.

Which of the following do you think would be better for the financial system in [COUNTRY]?

- **Banks being owned and run as a non-profit organization**
  - April: 16% Non-Profit, 42% For-Profit, 4% Government
  - September: 15% Non-Profit, 44% For-Profit, 5% Government

- **Banks being owned and run as a for-profit company**
  - April: 20% Non-Profit, 57% For-Profit, 14% Government
  - September: 14% Non-Profit, 63% For-Profit, 22% Government

- **Banks being owned and run by the government**
  - April: 20% Non-Profit, 50% For-Profit, 22% Government
  - September: 21% Non-Profit, 53% For-Profit, 25% Government
What to do with Large Banks

There is a growing desire for government action to break up large banks. Post-Brexit, most in Britain now agree with this point of view.

Which one of the following statements comes closer to your opinion about the largest banks operating in [COUNTRY]?

These large banks provide critical resources and expertise to the economy and businesses of [COUNTRY]. The government needs to ALLOW THESE BANKS TO STAY LARGE so they can provide capital to projects and support a wide variety of ventures.

These large banks control so much of the country's money that their failure would be catastrophic to [COUNTRY]'s economy. The government should take action to BREAK THEM UP into smaller banks.
Growth vs. Security in the Financial System

Yet, there is majority support in the U.S. and France for the financial system to prioritize stronger growth over security of investments.

Regarding the financial system in [COUNTRY], which do you think should be the higher priority?

**STRONGER ECONOMIC AND JOB GROWTH, and high returns of investments and deposits, even if it means more risk and more economic volatility**

![Bar chart showing the percentage of support for growth vs. security in the financial system for different countries and time periods.](chart)

**SAFETY AND SECURITY OF INVESTMENTS AND DEPOSITS, even if it means slower job growth and lower economic returns**

![Bar chart showing the percentage of support for growth vs. security in the financial system for different countries and time periods.](chart)
Views of Bank Types

In each country, a solid majority prefers banks with multiple services over specialized institutions.

Which do you view more favorably?

Banks that offer a VARIETY OF SERVICES, such as retail banking for consumers, and commercial and investment banking for businesses and corporations

Banks that offer ONLY ONE TYPE OF SERVICE, specializing in either retail banking for consumers, or commercial or investment banking for businesses or corporations

72% 59% 62% 71%
Amidst post-Brexit worries, strong support for banks’ involvement in negotiations
Impact of Brexit

Across countries, more believe that Brexit has had a negative impact on the global economy. Outside of the UK, most think Brexit is the start of new problems rather than a step towards solving existing problems.

**What impact has Brexit had on the global financial system?**

- Positive: 14%, Mixed: 48%, No Impact: 7%, Negative: 30%
- Positive: 17%, Mixed: 45%, No Impact: 8%, Negative: 29%
- Positive: 9%, Mixed: 41%, No Impact: 22%, Negative: 29%
- Positive: 8%, Mixed: 38%, No Impact: 13%, Negative: 41%

**Does this step by the United Kingdom represent...**

- Important Step in Solving Problems: 45%, Start of New Problems: 54%
- Important Step in Solving Problems: 51%, Start of New Problems: 47%
- Important Step in Solving Problems: 44%, Start of New Problems: 54%
- Important Step in Solving Problems: 28%, Start of New Problems: 71%
Bank Representation in Brexit Negotiations

There is overwhelming support for banks to have a seat at the Brexit negotiating table.

**How important is it that the interests of the following be represented in the Brexit negotiations between the UK and the EU?**

<table>
<thead>
<tr>
<th></th>
<th>British Banks</th>
<th>European Banks</th>
<th>American Banks</th>
<th>Global Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Banks</td>
<td><strong>93%</strong></td>
<td>82%</td>
<td>76%</td>
<td></td>
</tr>
<tr>
<td>European Banks</td>
<td>78%</td>
<td><strong>86%</strong></td>
<td>87%</td>
<td></td>
</tr>
<tr>
<td>American Banks</td>
<td>58%</td>
<td>51%</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>Global Banks</td>
<td>72%</td>
<td>67%</td>
<td>72%</td>
<td></td>
</tr>
</tbody>
</table>
Access to Markets Post-Brexit

Those in the UK want British banks to have free access to European Markets. In France and Germany, there is strong support for luring banks with lower taxes.

Should banks and financial institutions in the United Kingdom continue to have **FREE ACCESS** to conduct business in the European Union?

83% Yes

Would you support or oppose a proposal to **CUT CORPORATE TAX RATES** in France/Germany in order to attract financial institutions to move operations from the United Kingdom?

81% Support

65% Support
Europe’s Next Financial Capital?
Europeans are unclear about the post-Brexit financial center and whether it will remain London or shift to Frankfurt, Brussels or Paris.

Agreement that London will remain the financial center of Europe

- UK: 72%
- France: 44%
- Germany: 32%

Which cities will gain in importance?

- Frankfurt: 39%
- Brussels: 25%
- Paris: 31%
- Dublin: 10%
- Amsterdam: 4%
- Warsaw: 1%

- UK: 58%
- France: 25%
- Germany: 6%