Fraudsters head back to low tech

Online banking fraud showed a sharp decline in the first half of 2011, data published by Financial Fraud Action UK shows.

A total of £16.9m was lost between January and June, compared with £24.9m for the same period in 2010. The fall is credited to the growing awareness of data security issues and the banks' employment of fraud detection systems to flag up anomalies and unusual customer behaviour.

However, a breakdown of the total fraud figures reveals that while there was a sharp fall in card and online banking fraud losses, there was a corresponding increase in cheque and phone banking fraud.

"While these numbers look very encouraging it is important to recognise the price customers have to pay for safe online banking," pointed out William Beer, a director of the information and cybersecurity practice at PwC. "Two-factor authentication has now become common, with customers having to carry a keyfob or other device in order to log into their bank accounts. While this has lessened the risk of fraud, it has introduced an element of inflexibility into the system and should not be seen as a silver bullet."

Beer added that with banks resisting online fraud more successfully, organised criminals had moved on to potentially softer targets such as the European Carbon Trading Market.

"It is also important to note that cybercrime is global, as are many of the banks that criminals target, so figures based solely on UK fraud might not tell the whole story," he said.

Beer: two-factor security not a silver bullet

Counterparty risk the toughest to manage

The strength of the UK market, exports, business confidence, cashflow and investment in plant and machinery all weakened in the third quarter of 2011, according to the British Chambers of Commerce (BCC).

BCC, whose latest quarterly economic survey is based on responses from 6,700 businesses across the UK, said that the much needed rebalancing of the economy had yet to get under way. There were "concerning signs" of stagnation, while cashflow management remained a real concern for many companies, with little change for the services sector but a sharp deterioration for manufacturers. Many businesses in both sectors (although fewer than in the second quarter) reported that they planned to increase their prices in the face of higher raw materials costs.

Osborne advised to reallocate spending

The survey results are worrying "but not entirely surprising", according to John Longworth, BCC director general. It stressed the need for the government to put business growth at the heart of all its policies. "Many businesses are faced with unfavourable payment terms and a lack of access to capital," he added.

Longworth still believes that a double-dip recession can be averted, but although he said it was important for the government to persevere with its deficit-cutting plan, "there must be a significant reallocation of priorities within the overall spending envelope".

BCC chief economist David Kerns added that the recent £75bn injection taking the Bank of England's total quantitative easing programme to £275bn was welcome, but more radical measures were needed. "These should be mainly concentrated on purchasing securitised SME loans and other private sector assets," he suggested. "The government should also reprioritise its spending plans to promote growth and wealth creation." ■

Little action on national OTC reform

The Financial Stability Board (FSB) has warned that few member countries have yet legislated or put regulations in place for the framework needed to enforce commitments for trading standardised over-the-counter (OTC) derivatives contracts. The commitments were agreed by G20 leaders at the 2009 Pittsburgh summit and are due to take effect at the end of next year.

In its second progress report on the implementation of OTC market reforms, the Basel-based body said: "Consistency in implementation across jurisdictions is critical, and it is understandable that smaller markets want to know what frameworks the US and EU put in place when developing their own frameworks."

The FSB is chaired by Bank of Italy governor Mario Draghi, and coordinates at international level the work of national financial authorities and international standard-setting bodies. It is inviting feedback on this second progress report and plans to issue a further progress report in Spring 2012.

It has also published a follow-up peer review on compensation practices and progress since the G20 Pittsburgh and London summits of 2009 in aligning compensation with prudent risk-taking, particularly at major financial institutions. It said good progress was being made.

"Many national authorities have taken the necessary regulatory actions, supervisory oversight has intensified, and the governance of compensation schemes at firms has improved," it reported. ■

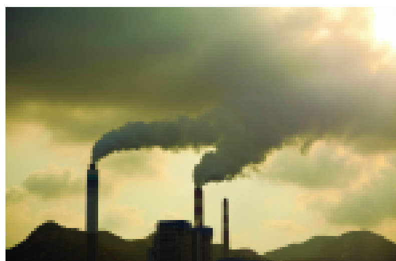
Feedback should be emailed to the FSB by 30 November via fsb@bis.org

Carbon rules fuel business efficiency

New global regulations to help businesses measure and manage greenhouse gas emissions created by their supply chains will also improve their purchasing decisions and optimise efficiency, says PwC.

In October the World Resources Institute and the World Business Council for Sustainable Development incorporated standards for the corporate value chain (Scope 3) and product life cycles in their Greenhouse Gas Protocol. The aim is to boost reporting quality and reduce costs by expanding the scale and scope of carbon emissions accounting.

"We expect these standards to be of particular interest to businesses in aerospace and defence, automotive, industrial products, IT, retail and consumer, and utilities," said Malcolm Preston, PwC global sustainability and climate change leader.


Emissions cuts will improve business health

He added that an improved ability to assess emissions across the entire value chain would help reduce them.

Scope 3 reporting is optional, but government agencies and many stakeholders increasingly ask for the data around it – through annual data requests or requests for proposals (RFPs).

"Companies will have to take care to understand the new accounting and reporting requirements, establish strategies for measuring and reducing their emissions, and develop and implement processes and systems for reporting," said Preston. "The standards create a platform for stakeholders and companies to work together in a partnership to manage emissions." ■

The full standards are available for download at www.ghgprotocol.org

DB schemes hold up as stock markets wobble

Defined benefit (DB) pension schemes have proved relatively resilient to recent market volatility, according to Mercer.

The consultancy's latest pensions risk survey shows that FTSE 350 pension schemes' cumulative accounting deficits stood at £64bn – equivalent to a funding ratio of 88% – as of 30 September, compared with £53bn (90%) at the end of August.

Mercer said the latest figure for the aggregate FTSE 350/IAS 19 DB pension deficit was the same as that recorded on 31 December 2010.

"Falling corporate bond yields, which are used to discount liabilities, and falls in the stock market would ordinarily result in an increase in the IAS 19 deficit," Mercer noted.

"However, the value of pension scheme liabilities is also linked to market pricing of price inflation. Since the market's view of longer-term price inflation has also reduced significantly over the period, this has largely offset the effect of the fall in stock markets and reduction in corporate bond yields."

Adrian Hartshorn, a partner in Mercer's financial strategy group, added: "The events of September highlight the interplay of the various factors affecting the calculation of the deficit in pension schemes.

Hartshorn: close monitoring advisable

"In turn, companies and pension scheme trustees need to monitor their own funding position closely and stay close to emerging market trends to take advantage of changing market conditions." ■

Blue-chips rework longevity stats

Blue-chip companies have increased longevity assumptions for their pensioners for the fifth successive year, reports consultancy Mercer.

It said that four months had been added to mean life expectancy assumptions for scheme members in 2010 to give a cumulative increase of 2.5 years since 2005. This corresponds to increases in scheme liabilities of around 1% and 6% respectively.

The report shows FTSE 100 companies extended their UK longevity assumptions by three months for current pensioners and five months for future retirees since the previous report at the end of 2009. Male scheme members aged 65 are now expected to live to an average age of 87.2.

However, the median long-term expected rate of return on scheme assets fell by 0.2% a year in 2010.

The data also revealed a range of inflation assumptions, with companies anticipating a long-term retail price index (RPI) rate of 3.1–3.7% a year.

"The difference between these inflation assumptions could change the pension liabilities by around 10% for a typical UK scheme," said Mercer.

Corporate debt sales plummet

Global corporate debt sales fell in the third quarter of 2011 to $456bn, a drop of almost half from the previous quarter, according to data from Thomson Reuters. They were also 38% down on the same period a year ago.

Volatility deterred companies from accessing capital markets, and depressed investor appetite for riskier issues. Global high-yield issuance fell by 73% to $29bn.

However, the average coupon for fixed-rate investment-grade corporate bonds was only moderately affected, at 4.23% in the third quarter against 4.36% in the second quarter.

The outlook for the fourth quarter remains uncertain, with bankers forecasting that investment-grade companies can still access the markets fairly easily and will use "windows of opportunity" to tap them when conditions are less volatile.

However, riskier, non-investment grade companies are likely to continue to encounter problems in attracting investors.

Lift for UK pensions

A global comparison of national pension systems ranks the UK's as sixth.

The Melbourne Mercer Global Pension Index rates 16 countries that collectively represent over 50% of the world population. The UK's index score for 2011 has improved, reflecting increases – relative to pay – in projected pensions, improved population coverage of pension schemes and higher savings rates.

Mercer also forecast the UK's performance would improve again in 2012-13, due to future increases in minimum pensions and the introduction of workplace auto-enrolment. However, it added that further reform would be needed to withstand the pressures of an ageing population and to ensure sufficient retirement savings.

The latest index ranks the Netherlands top with a score of 77.9, followed by Australia (75.0), Switzerland (72.7), Sweden (72.6) and Canada (69.1). The UK scored 66.0 this year against 63.7 in 2010.

"Significant pension reform needs to be made now," said Mercer senior partner David Knox. "The best systems adopt a multi-pillar approach to spread long-term risks between governments, employers and individuals."

… but QE hit looms

Vassiliades: schemes to pay 'QE premium'

The Bank of England's decision to put another £75bn into quantitative easing (QE) is a threat to UK pension schemes, warns Punter Southall.

According to Danny Vassiliades, a partner at the actuarial consulting firm, pension schemes are likely to pay a "QE premium" as QE drives gilt yields down and inflation expectations up – both of which increase the value of scheme liabilities.

"Nearly all of the Bank's previous £200bn of QE in 2009 was used to buy government bonds and helped gilt yields to fall by just under 1%," he said.

A further purchase of long-dated government bonds could suppress gilt yields even more, while inflation could be pushed higher if the new QE money does not find its way into new goods and services.

Boardrooms creeping towards diversity goal

Limited progress on gender-diverse boards

Women have accounted for 22.5% of new director appointments made by FTSE 100 companies since March, when the Davies Report on boardroom diversity was published.

The figure falls well short of the 33% target recommended in the report, although the proportion of women on FTSE 100 boards has gone up to 14.2% from 12.5% at the end of 2010. The proportion of women on FTSE 250 boards has risen from 7.8% to 8.9%, with women accounting for 18% of new appointments since March.

An update on progress over the subsequent six months, published by Cranfield School of Management, shows that only 33 of the top 100 companies have so far added more female directors.

The report cites "institutional inertia" for the limited progress that has been made, but expresses hope that more companies will comply voluntarily. Lord Davies recommended that FTSE 100 companies should set a minimum target of 25% female board representation by 2015.

Prime minister David Cameron last month confirmed that he would be writing personally to the chiefs of FTSE 350 businesses that have yet to announce plans for increasing the number of women employed in senior roles to warn them that their lack of action was being monitored. ■

Insolvency gloom deepens

A total of 3,601 UK companies became insolvent in the third quarter of 2011, according to statistics issued by PwC – an 11% decrease from the second-quarter total of 4,046 but a year-on-year increase of 9%.

The worst affected sectors continue to be construction, where 587 companies failed, retail (410), manufacturing (391), hospitality and leisure (235), and real estate (109). PwC added that, apart from real estate, each of these sectors had suffered more casualties than over the same quarter of 2010.

Wales bucked the national trend with 8% more company insolvencies in the third quarter than in the second quarter.

PwC also warned that the improved quarter-to-quarter figures recorded since the start of 2011 would be reversed as the impact of public sector job cuts, sluggish economic growth and squeezed consumer spending deepened. ■

Pick-up in dividend payouts predicted

Dividend payments from the UK's top 200 companies are set to grow strongly despite the gloomy economic outlook, a report by stockbroker Shore Capital suggests.

It said that in 2008 dividends were cut on average by 25% and by a further 14% in 2009. Last year saw a meagre 4.4% rise. Shore said it expected an average rise of 15.9% for 2011, adding that 78% of companies had announced a higher dividend over the interim reporting season.

It was also bullish for 2012, predicting a typical rise of 12.6%, in contrast to the dividend futures market, which is indicating pay cuts.

Shore analyst Alex Stone pointed out that corporate balance sheets remained healthy, and companies were under pressure to return cash to shareholders rather than embark on expansion.

Shore expects significantly higher payments from Standard Chartered, Legal & General and Intermediate Capital, among others.