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{ CAPITAL MARKETS AND FUNDING }

BANK LENDING IN EUROZONE TO FALL BY 2%

Bank lending in the eurozone is set to fall by 2% this year as banks retreat further behind their national borders.

According to Ernst & Young's *Eurozone Financial Services Forecast* released last month, lending in 2012 is forecast to decline by 8.8% in Spain and by 4.5% in Italy. But the picture is not equally bleak across the eurozone: in Germany it will expand by 1.3%. The research also found that German, French and Dutch non-performing loans (NPLs) will have peaked by the end of 2012, but NPLs in the periphery of the eurozone will continue to rise.

Bank lending in the eurozone will be overtaken by bond issuance for the first time this year. Andy Baldwin, head of financial services Europe, Middle East, India and Africa at Ernst & Young, said: "It is yet to be seen whether this will be a short-term shift due to current crisis, or whether it becomes more of a

Bank lending in the eurozone will be overtaken by bond issuance for the first time this year

long-term trend and the market for investors dealing directly with corporates develops in a similar way to what we have seen in the US."

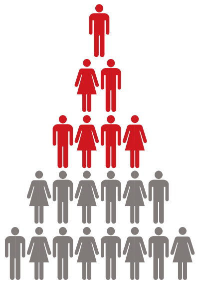
Meanwhile, the insurance sector across the eurozone continues to face significant challenges, as interest rates remain at rock bottom and equities are muted. Insurers are also being squeezed by payouts for natural disasters and the recession is holding back their ability to pass on the cost through higher premiums. A 5% fall in insurers' profits is forecast this year, compounding last year's 18% drop.

{ FINANCIAL MARKETS REFORM SURVEY – THE ECONOMIST INTELLIGENCE UNIT/LLOYDS }

THE STATS

42% of major corporations and financial institutions across the world recognise that financial markets reform will increase market transparency

61% feel they are actually prepared for regulatory changes in financial markets



68% are bracing themselves for the new regulatory landscape to have significant effects on their risk-management or financial strategies

41% believe it will lead to more stable financial markets

30% think it will reduce systemic and counterparty risk

50% fear that financial market reform and regulation will hinder growth, innovation and profitability

{ AROUND THE WORLD IN 30 DAYS }

COMPANIES, CONSUMERS AND DOCUMENTARY CREDIT

Companies likely to default
The credit risk of Western European companies will worsen over the next two years, according to Moody's Analytics. "While the credit quality of US firms was severely affected following the 2008 financial crisis, European companies fared slightly better. Now, the intensification of the sovereign debt crisis and slower economic growth across the continent are pushing up the average default risk of European companies in line with that of US companies," said Danielle Ferry, senior research analyst at Moody's Analytics.

Consumers mistrust banks
Nearly half of global consumers do not trust banks, accountancy firms and private equity firms to act in their best interests, according to new research. A study of 18,000 consumers in 24 countries by member-based advisory firm CEB found that confidence in financial providers was lowest in the UK, while the most positive sentiment could be found among consumers in Sweden and, more surprisingly, Spain. The most common reasons given for consumers lacking confidence were the inability of financial providers to share consumers' own values and to offer them clear and simple policies.

RMB first for HSBC India
HSBC India has issued its first renminbi-denominated documentary credit in India for a Mumbai-based pharmaceuticals company. A documentary credit is a commitment issued by a bank to pay a supplier within a prescribed time limit provided certain terms and conditions have been met. Sandeep Uppal, managing director and head of commercial banking at HSBC India, said: "HSBC's research estimates that approximately $2 trillion, or a third of China's annual trade, will be settled in renminbi by 2015."

{ RISK MANAGEMENT }

FTSE 350 DEFICITS UNCHANGED AFTER A DECADE

Deficits in FTSE 350 pension schemes were £73bn at the end of June 2012, virtually unchanged from the position 10 years ago, according to Mercer. This is despite FTSE 350 companies paying an estimated £175bn in deficit contributions, approximately 40% of the average scheme asset values over the period.

The research also found that funding levels shown in company accounts have only improved by around 8%, from 79% at 31 December 2002 to 87% at 30 June 2012.

The data underlines the market volatility that has seen deficits oscillate from lows of £43bn in 2007 to highs of £103bn in 2009. According to Mercer, the volatility suggests that the risk/return position adopted by many companies in conjunction with their schemes' trustees has not paid off, leaving company balance sheets, and potentially scheme members, vulnerable to external events.

"The analysis illustrates the impact of the sustained fall in bond yields, equity underperformance and improving longevity over the past 10 years," said Adrian Hartshorn, a partner in Mercer's financial strategy group.

For more on managing pension risk, see page 32

MAKING THE NEWS

Some 46% of UK finance professionals believe they produce reports that are never used, while 63% say senior managers should make more use of financial information

FSA eases up on banks

The UK Financial Services Authority (FSA) has eased its capital and liquidity requirements for banks in an effort to improve lending, it was reported last month. According to the *Financial Times*, the new rules mean banks will not be forced to hold any extra capital against loans that qualify for the 'funding for lending' scheme that aims to bolster lending to households and businesses. In addition, UK-regulated banks will no longer have to maintain a core ratio equal to 10% of their assets, adjusted for risk. Instead, individual banks have their own capital targets.

Reports waste time

Some 46% of UK finance professionals believe they produce reports that are never used, while 63% say senior managers should make more use of financial information. This is according to research by information provider Source for Consulting, in partnership with software company Advanced Business Solutions. And overall, 48% of the managers and directors surveyed confessed to reviewing a report produced by someone else no more than once a week, while 22% admitted to using reports only 'occasionally'.

Better CFOs from within

CFOs appointed from inside a company have longer, more stable tenures and are associated with better returns than CFOs hired from outside, research by executive search firm the Curzon Partnership has found. Its analysis of FTSE 100 CFOs over the past five years shows that internally appointed CFOs have an average tenure of six years, which is 30% longer than the average of just 4.6 years for CFOs who were external appointments.