CBI
THE VOICE OF BUSINESS

THE SHAPE OF THINGS TO COME?

25 YEARS OF THE FINANCIAL SERVICES SURVEY

In association with

pwc

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FOREWORD

Driving the change we need

The CBI/PwC financial services survey is celebrating its 25th anniversary. During the past quarter of a century, the survey has become one of the most closely watched barometers of the financial services sector. It has helped policymakers, analysts and commentators understand the past and future development of a sector that is vital to the UK's economic wellbeing.

The CBI is pleased to have been working with PwC across the entire lifespan of the survey. We have benefitted enormously from the insights gleaned from their global client network, and their expertise adds an extra dimension to our analysis of the survey. This silver anniversary provides an opportunity to reflect on the value of the data, the significant changes to the sector and the potential the survey offers us in the future.

Financial services are a driving force behind the UK economy. The sector accounts for around 8% of total output, 12% of total tax receipts and supports over one million jobs in the UK, two thirds of which are outside London. The industry is a UK export champion, adding almost £40bn to our annual trade balance.

But much more important than this is the role that it plays in supporting growth right across the economy. This has never mattered more than it does today, when our economic challenges are clear. We must improve our export performance, foster the right environment for start-ups, build a resilient 'Mittelstand' of medium-sized companies, renew our infrastructure and get productivity growing again.

Our hopes for the UK's economic future simply won't be realised without a sustainable and vibrant financial sector.

By tracking trends across the financial services sector the financial services survey gives us vital insight into how firms are adapting to meet these challenges.

Nowhere is this clearer than in the impact of innovation and competition. Our data shows that financial services firms are in the midst of a fresh wave of investment in new products and services, which companies see as increasingly important to growth strategies. And with the survey suggesting that competition is increasingly coming from new entrants outside the financial services sector, disruptive technology is also playing a transformative role.

Another catalyst for change and disruption is regulation. We are confident that we have emerged from the financial crisis with a more stable and resilient financial sector, supported by stronger rules and with regulators ready to act. While this has been essential for rebuilding confidence, the survey also highlights the perception that statutory legislation and regulation has hampered the ability of firms to service the needs of the economy.

While we should not rush to judgment on the long-term effects of the UK's new regulatory landscape, which is intended to support the growth-promoting role of the financial sector while safeguarding the economy from future crises, UK policymakers must also be mindful of the need to maintain our competitive advantage for the future.

Clearly the international dimension of regulation will be a factor in this: respondents to our survey believe regulatory changes have eroded the competitiveness of the UK as a financial services centre in recent years.

With a new government in place, we now need a financial services agenda that will put the country's economic priorities at its core, addressing how we save, fund and invest in the future. It must also safeguard our competitive advantage in financial services through a clear vision for how the UK will remain a top global financial centre in an increasingly competitive marketplace.

As policymakers and financial services firms rise to these challenges together, the financial services survey can help identify the opportunities and pressure points, providing a comprehensive front-line view of the sector's development. We look forward to adapting the survey to meet these challenges and to capture new trends as they emerge.

Finally, it goes without saying that none of this would be possible without the commitment of our loyal survey respondents. Their valued contribution each quarter deserves our heartfelt thanks. In these tough times, it is particularly encouraging that respondents feel able to devote their time towards completing our survey – the results of their dedication are plain to see.

Rain Newton-Smith
CBI director of economics

"Financial services are a driving force behind the UK economy"

An industry that must rediscover its core purpose

In the 25 years that PwC has been collaborating with the CBI to produce the UK Financial Services Survey, the study has established itself as one of the most reliable indicators of the industry's hopes, fears and opportunities. Its forward-looking perspective has made it a regular heartbeat for the sector, and required reading for anyone interested in its future.

The study has played this role during successive economic cycles, charting the industry's path through a landscape that's been transformed beyond recognition since 1990. Back then, technology disruption consisted of the fax machine, swaps transactions were new and accrual-accounted, and CDOs were undreamt of.

As such examples show, change and innovation have been constant features of the industry throughout these 25 years. And looking forward, the medium-term outlook remains unsettled, with events including the Competition and Markets Authority's retail banking review and the implementation of the Vickers recommendations by 2019.

Combining these factors with the wider changes under way, you might assume that the disruption facing the industry today is more fundamental than ever before. In fact, that's only partially true. What's really new is not the changes themselves but their unprecedented pace, which continues to accelerate. The result is greater uncertainty than at any time in living memory.

This uncertainty extends to the definition of 'financial services'. As entrants from retailers to telcos join the industry ecosystem, and models such as crowd-funding and P2P gain ground, the sector's external boundaries are blurring.

At the same time, a shift of focus from products to customer needs is dissolving the traditional divisions between banks, insurance companies and asset managers.

So, what does all this mean for the future? In looking forward, one point to stress is that today's rapid and sweeping change is raising challenges not just for companies, but regulators. As the regulatory burden grows, it's tempting to think that regulation will be the single biggest determinant of the industry's future shape.

Think again. Long-term, the global megatrends now evident all around us – demographic change, technology breakthroughs and economic shifts – will have more fundamental and enduring effects than anything regulators do. Indeed, regulation will ultimately have to adapt to how these forces reshape financial services.

To map out that future shape, let's first look back to previous centuries. When you consider the major advances throughout human history – international trade, investment in engineering innovation, cross-border transactions – financial services was invariably central to making them possible. The industry had a clear function and purpose, acting as a positive force by enabling and catalysing progress in society on countless fronts.

Over the past decade, that core purpose and relevance have become obscured – at a time when the world faces a host of profound challenges urgently requiring innovation and investment, ranging from developing low-carbon technologies to alleviating poverty. Would today's society instinctively look to financial services to tackle these, as in the past? Probably not: the tech sector would be seen as a likelier candidate. In my view, the financial services sector needs to rediscover its historical purpose and leadership in supporting human progress.

However, this journey faces some immediate bumps in the road. UK insurers, for example, are grappling with the radical changes in the annuities market. Asset managers have growing digital challenges around distribution and advice. And banks – perhaps most fundamentally of all – are wondering whether their 'Kodak moment' may be approaching, where step-changes in technology and customer behaviour leave legacy business models outdated.

This threat shouldn't be discounted. True, the core banking business has high barriers to entry. But many associated activities around it – payments, SME lending and the like – are vulnerable to agile entrants unburdened by legacy infrastructures and regulation. Strip these activities away, and you could be left with a low-return utility provider of accounts – effectively 'boring banking'. Regulators do have shadow banking in their sights. But it's questionable whether regulation will be able to keep up with the pace of developments.

Attracting talent is a further challenge for financial services. In the aftermath of the crisis, young adults no longer regard a career in the industry as attractive. The poor perceptions are being constantly reinforced by the media and politicians – and while banks take most of the flak, the effect on talent is being felt sector-wide.

So, how can the industry surmount these challenges to rediscover and reassert its purpose? Putting the customer at the centre is a positive step that is gaining ground. However, even here there are provisos. One is that espousing 'customer-centricity' may be regarded cynically as a slogan to rebuild trust and thereby profits. The other is the argument that delivering for customers is actually just a hygiene factor – and that the industry's stated purpose must extend to wider social goals to truly restore its status and standing.

The good news is the world will always need a financial services industry. But, in the future now taking shape, it will demand one that blends capital, intellect and innovation with a genuine commitment to tackling global challenges and supporting progress in society. I'm confident that such an industry will develop in the next quarter-century. It will look very different from the one we've seen over the first 25 years of this study. But it will emerge – and it will thrive.

Kevin Burrowes
UK financial services leader, PwC

"The industry had a clear function and purpose, acting as a positive force by enabling and catalysing progress in society on countless fronts"

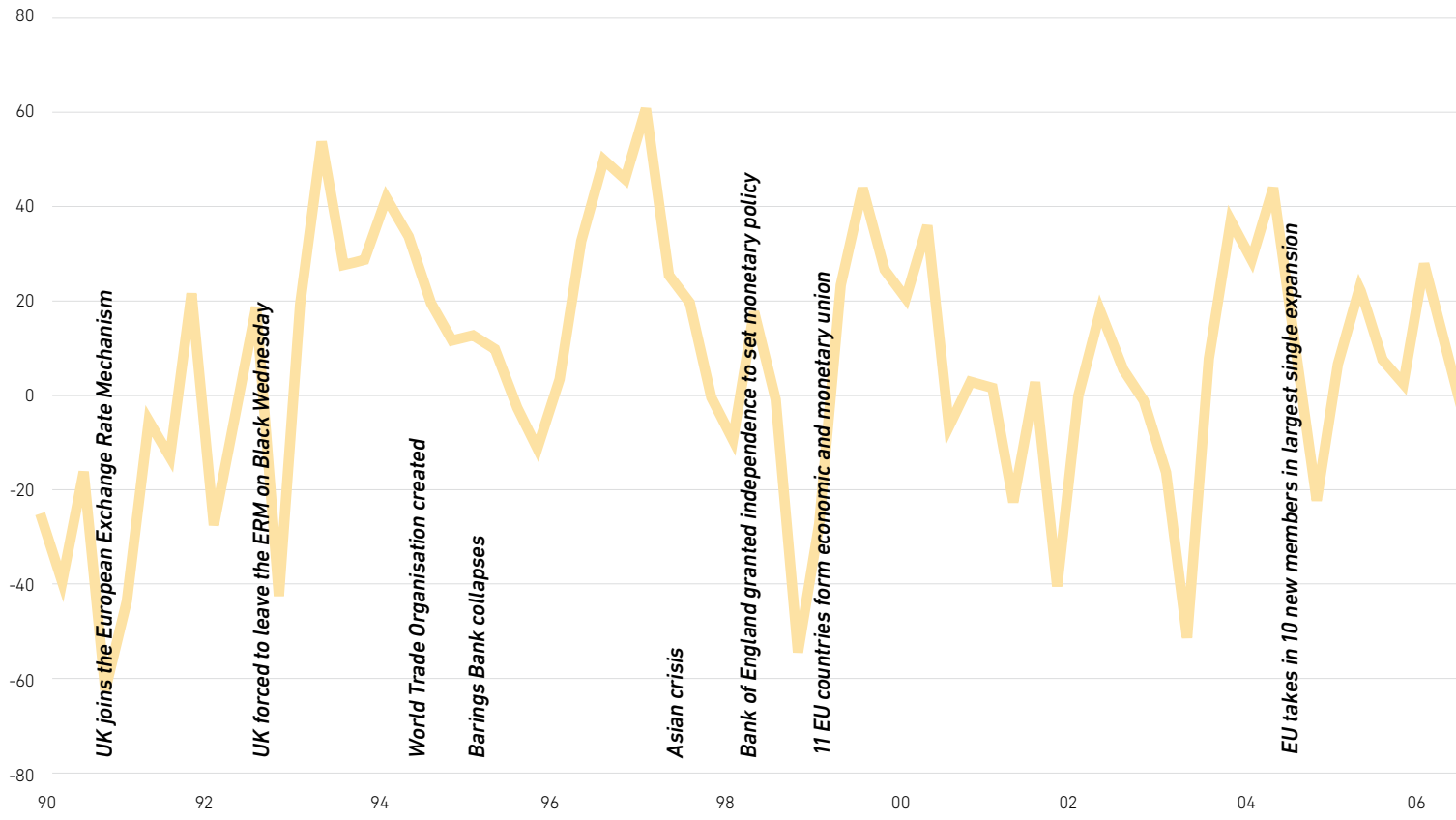
From the Berlin wall to the Black Friday boom

What have we learnt?

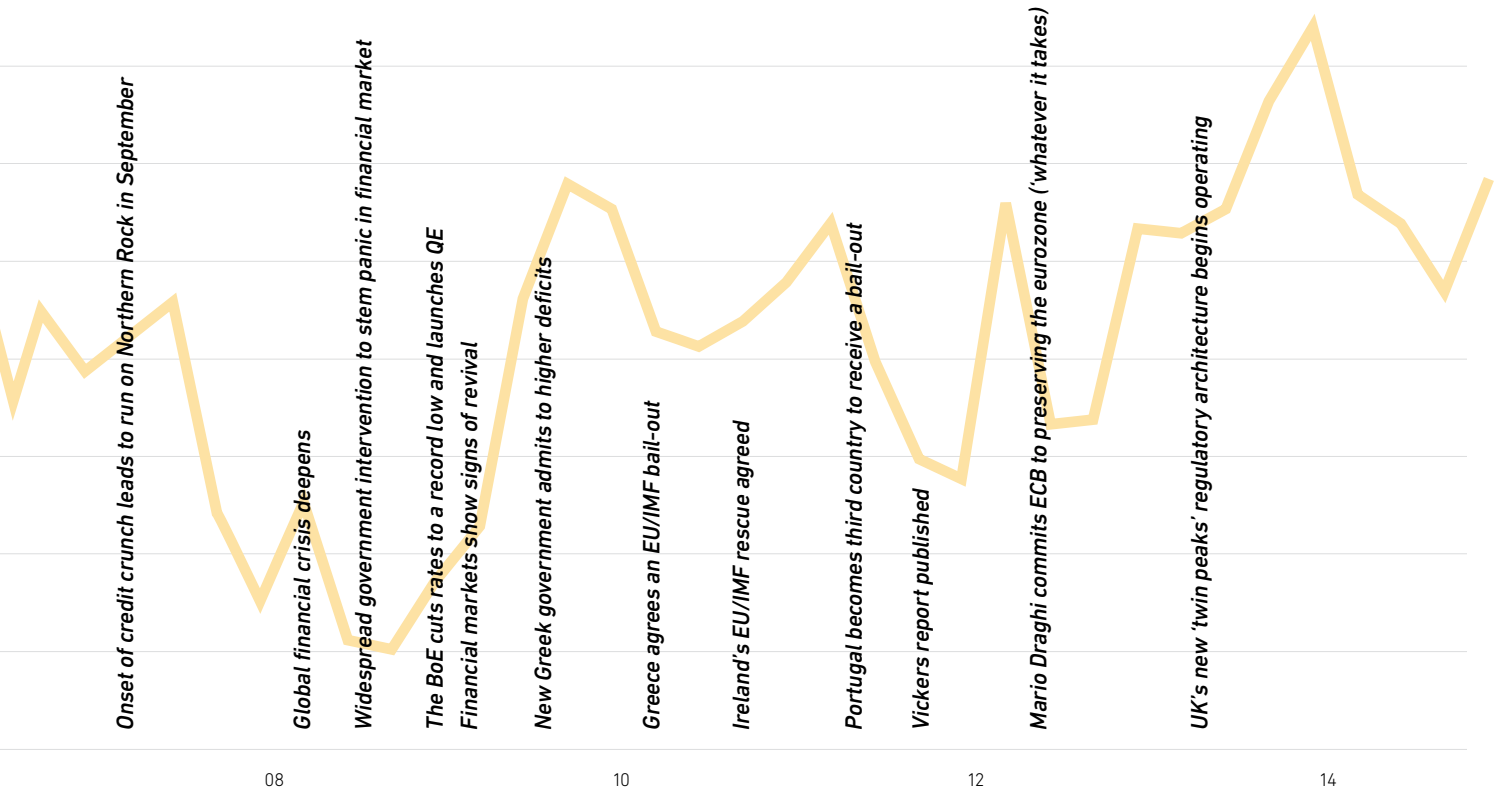
Launched as the shadow of the Berlin Wall was lifting from Europe, the financial services survey has tracked the changing fortunes of the industry through good times and bad, serving as an early warning system of activity in one of the UK's most vibrant sectors, as well as the wider economy. Looking back over the past quarter of a century, the survey has a good record for anticipating many key official data. It can provide a particularly illuminating picture of the underlying conditions during periods of heightened financial stress, and has therefore been invaluable for understanding the challenges facing the industry in recent years.

- The survey has proved to be a reliable gauge of business conditions in the financial services sector and a leading indicator for the wider economy, providing a 'reality check' for official data. Surveys show a solid upturn in activity in the financial services sector over the past two years, in contrast to officially-measured output growth, which has been depressed by the process of debt deleveraging.
- Key indicators on business performance and strategies suggest that the financial services industry has now moved well beyond the recovery phase. With concerns over competition reaching their strongest for eight years during 2014, firms switched growth strategies, focusing on new customer acquisition and new product launches.

Exhibit 1 Highs and lows: optimism over the past quarter of a century – a timeline of events (% balance)



- The survey sheds fresh light on the UK's 'productivity puzzle', suggesting that output per worker in the sector fell sharply in the years running up to the financial crisis – in contrast to the strong rise in productivity shown in official data. The survey also paints a more flattering picture of the recovery in financial services productivity since 2010, which is consistent with the strong commitment shown by survey participants to boost investment in IT.
- The survey can enrich our understanding of financial stability risks. It has captured well the persistently low interest rate spreads that often precede crisis episodes. Changing expectations for credit spreads have proved to be a reliable leading indicator of turning points in the wider economy. The survey's data on expectations of non-performing loans also provides a timely indicator of strains within financial institutions.
- Plans to combat the emerging threat to financial stability from cyber-crime vary by sector. The March 2015 survey showed that banks are strongly focused on the threat of cyber-attacks, which is also an increasing priority for life insurers and investment managers. Firms in some other sectors appeared more sanguine.
- Financial services firms continue to grapple with the evolution of legislation and regulation. Regulation remains a major driver of spending and investment, and firms continue to face acute difficulties in recruiting compliance officers. Statutory regulation is widely seen as a barrier to growth and a threat to the UK's competitiveness as a financial centre, highlighting the ongoing challenge for regulators in keeping pace with industry change.



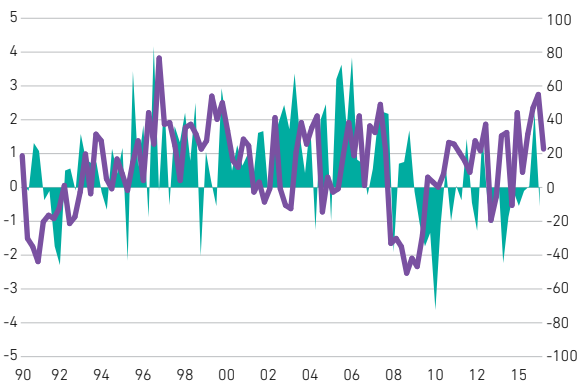
Source: CBI/PwC

Taking the pulse of the UK economy

From its launch in 1989 up to the present day, the financial services survey (FSS) has remained the only UK business survey focussing exclusively on the financial services sector. With long-running series on key indicators (such as business volumes, profitability, employment and investment plans) the survey allows analysts, policymakers and financial services firms to track developments in a sector that has become an increasingly important contributor to economic growth. Financial services are a major part of the UK economy – representing around 8% of output – but also play a key role in sustaining household consumption and helping businesses to grow. Indeed, there is now a substantial body of academic research pointing to strong causal links between financial sector conditions and the broader business cycle.[1]

So understanding trends within financial services is vital for predicting wider economic developments. Yet measuring activity in the financial services sector is fraught with difficulty. Although great strides have been made to improve the available data, official output estimates rely on capturing hard-to-measure interest flows, which during times of stress tell us very little about the underlying conditions within the sector. One of the strengths of the CBI/PwC survey is that it provides a 'qualitative' assessment of trends, providing an early warning of shifting conditions.

Exhibit 2 FSS volumes and ONS output



Source: CBI/PwC, ONS

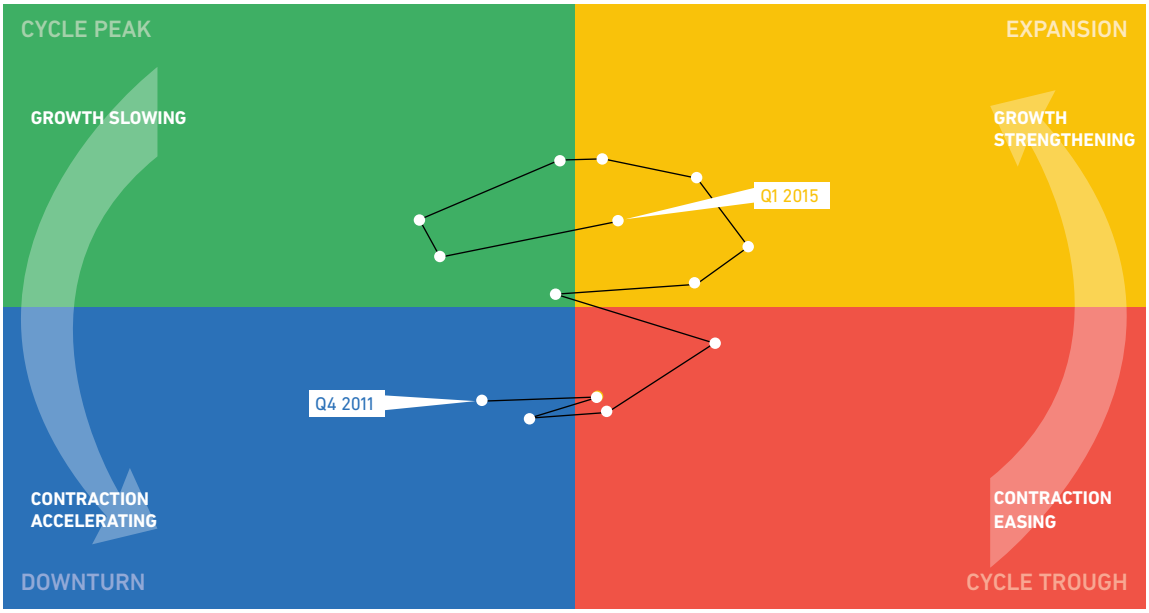
A 'reality check' for official data

There was no better proof of the survey's value as a bellwether of conditions in the sector than during the 2008-09 financial crisis, when it provided an important 'reality check' for official data. At the first signs of market turbulence in mid-2007, survey balances for business optimism and business volumes both fell back sharply, and firms reported they were cutting back their workforce from early 2008. Business volumes fell consistently right through to the third quarter of 2009 – the longest period of contraction since the early 1990s.

Official data told a very different story, however. Based on gross value added, financial services output grew strongly through much of 2008, even in the aftermath of the collapse of Lehman Brothers in September 2008. In fact, in nominal terms, output went on to grow at the fastest pace on record in the final quarter of 2008: this was puzzling, coming at a time when financial systems in much of the developed world were going into cardiac arrest. The key to this conundrum is the use of interest flows as a proxy for output in banks, building societies and other financial intermediaries.[2] With stocks of loans and deposits remaining fairly stable through 2008, and interest margins increasing while the bank rate plummeted, measured output therefore continued to grow amid the unfolding crisis, even while the sector was telling us that business volumes were falling.

More recently, we have seen these trends reverse, with clear differences between the survey and official data emerging once again. The survey has generally been picking up rising activity throughout 2013-15, but official output data has remained weak, as interest rate spreads have narrowed, deleveraging has reduced the stock of loans and higher consumer confidence has meant that households have run down their savings. All of these factors have downplayed the financial sector's recovery in official estimates, and its contribution to the UK's recent economic upswing.

Exhibit 3 Phases of the business cycle: optimism, Q4 2011 to Q1 2015



Notes

The exhibit plots the cyclical behaviour of the optimism balance statistic (see 'About the financial services survey', page 19), using a four-quarter moving average to smooth out volatility. The chart is divided into four phases, with the cycle indicator moving in a (generally) anti-clockwise direction through time. When the indicator is in the bottom half the balance statistic is below its long-run trend, moving into the top half when above trend. The indicator appears on the left-hand side when the balance statistic is falling, implying that growth is either slowing or that contraction is deepening. If the indicator is on the right hand-side, this means the balance statistic is rising, implying that a contraction is easing or that growth is strengthening.

In the example shown, the data begins in the final quarter of 2011, a time when UK economic growth had stalled and the eurozone debt crisis was engulfing the larger peripheral member states. We can see that the indicator was in the bottom left-hand quadrant, well below trend and deteriorating, with the 'trough' in sentiment eventually reached three quarters later. After recovering through 2012, optimism began to improve at above trend rate by the end of the year, moving into the top right-hand quadrant associated with periods of economic recovery. Sentiment has risen continuously ever since, but the pace of improvement eased through 2014, before accelerating again at the start of 2015.

A 360° view of the business cycle

Looking back over the full lifetime of the financial services survey there has been no shortage of drama; perhaps the greatest value of the data is in the ability it gives us to recognise change. Time and again the survey has correctly signalled turning points in the business cycle. The key to this success – and one of the survey's major strengths – is its blend of 'macro' and 'micro' indicators, which allows a comprehensive view of financial services firms' performance, prospects and business strategies, creating a powerful tool for business cycle analysis.

The question that best sums up the mood within the financial services sector asks simply whether respondents are more or less optimistic about the overall business situation than three months earlier. This series has proved to be a reliable leading indicator for broader economic conditions: we find a reasonably solid (+0.5) correlation between changes in the balance for optimism in financial services and changes in real GDP growth six months ahead.

While the optimism balance tends to lead the economic cycle, rising sentiment is quickly reflected in other variables. During recovery phases, as broader economic confidence improves and spending starts to revive, financial services firms tend to ramp up their plans for marketing spending relatively quickly to exploit expected increases in demand. Firms also begin to upgrade technology, with plans for investment in IT typically strengthening early on in the cycle.

As upswings lengthen, hiring picks up and investment intentions also tend to strengthen and broaden out to other assets, as firms use profits to expand operations and better position themselves against competitors. Investment in land and buildings also tends to respond to a recovery phase with a lag, as does expenditure on staff training, the latter possibly reflecting greater difficulties recruiting necessary skills in a tightening labour market.

Exhibit 3 provides an example of the cyclical behaviour of the optimism balance from late 2011 up to the first quarter of 2015. It highlights how, after the steady recovery of the sector from 2012, sentiment moderated during 2014 – foreshadowing the slowing of the UK economy into early 2015. Encouragingly, sentiment in financial services picked up again at the start of 2015. A similar analysis of other indicators in the survey shows that many remained above-trend in early 2015, suggesting that the UK's business cycle remained firmly in an expansionary phase. However, activity has softened, with expectations for falling marketing spend over the year ahead, and the growth of employment, training, non-IT investment and total costs slowing down.

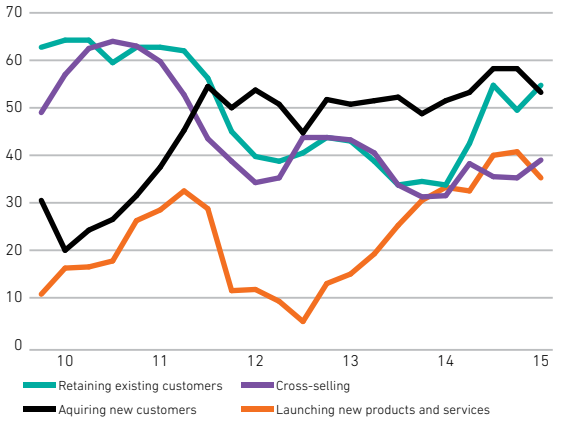
Competition is heating up

In addition to key performance indicators, the survey provides a wealth of additional information that is useful in tracking the business cycle. Recent surveys reveal how concerns that competition could constrain business expansion rebounded sharply during 2014, to reach the highest level since 2006 at the end of the year. And since early 2014, plans to boost investment spending have been driven increasingly by a desire to reach new customers and provide new services. Both these balances tend to rise steeply when times are good, falling just as quickly when sentiment cools.

In 2009, the survey was expanded to include additional questions on business strategies, which reveal the extent to which firms have switched from a defensive to an offensive mind-set over the past year. The share of firms focusing on acquiring new customers or planning to launch new products has increased sharply over the last two years, while the share focusing on cross-selling to existing customers

Exhibit 4 Organic growth strategies

% of firms citing factors as important to growth strategies over the next 12 months (four-quarter moving averages)



Source: CBI/PwC

Exhibit 5 Inorganic growth strategies

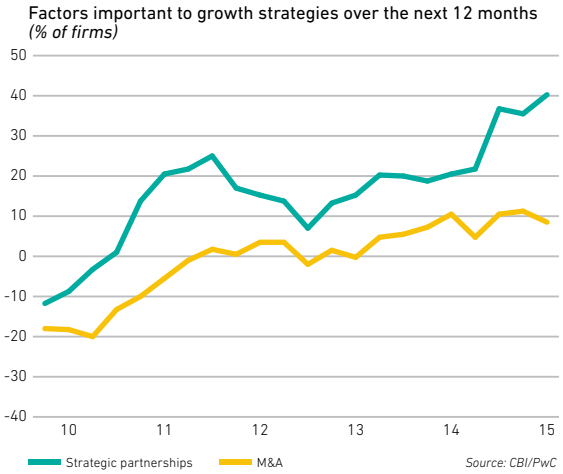
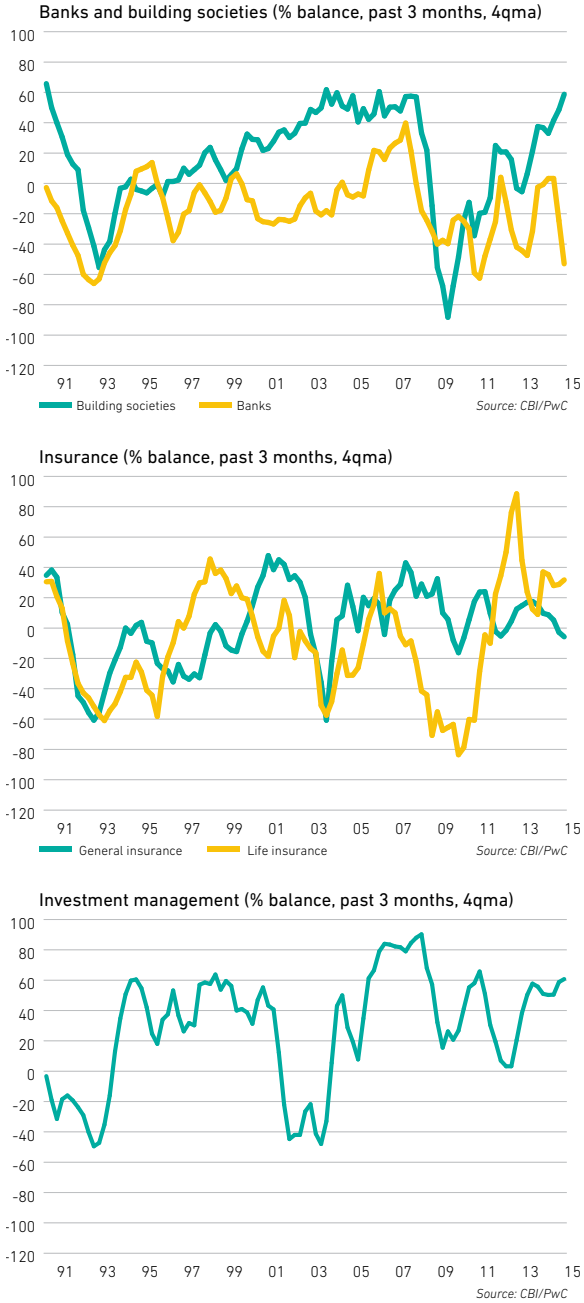


Exhibit 6 Employment trends



declined steadily (**Exhibit 4**). Plans to form strategic partnerships have also strengthened, while interest in mergers and acquisitions has picked up (**Exhibit 5**). A key point of interest for the survey in the years ahead will be how these relatively new series develop as the business cycle turns.

Tracking trends across different sectors

Given both the conceptual and practical difficulties in measuring activity across the different parts of financial services, industry analysts and commentators more often turn to employment trends to assess how the sector is performing. So it is another major benefit of the CBI/PwC survey that it affords a detailed and timely view of labour market developments, covering different parts of the industry and published in a timely fashion.

For example, the survey has faithfully chronicled the rapid growth of employment in building societies from the late 1990s up to the financial crisis, mirroring the boom in housing market activity (**Exhibit 6**). We can also see how the financial crisis had a differential impact on the insurance sector. Employment in life insurance has suffered in recent years, reflecting lower discretionary spending among households, but demand for general insurance tends to be more inelastic and firms in this sector have laid off far fewer workers. The chart also shows the remarkable growth of the investment management industry, which in the last quarter of a century appears to have suffered only one period of prolonged labour market shake-out, in the wake of the collapse of the dot.com bubble and the 11 September terrorist attacks on the US.

Shedding new light on the UK's 'productivity puzzle'

Of course, output and employment trends can and do diverge, which in theory reflects underlying changes in labour productivity. Such a step-change in productivity in the financial services industry was widely assumed to have taken place in the years running up to the financial crisis, when official data showed a steady decline in the share of the total UK workforce employed in financial services at the same time as the sector's share of national output rose rapidly.[3] But the extent to which the pre-crisis 'productivity miracle' was merely illusory has been hotly debated.[4]

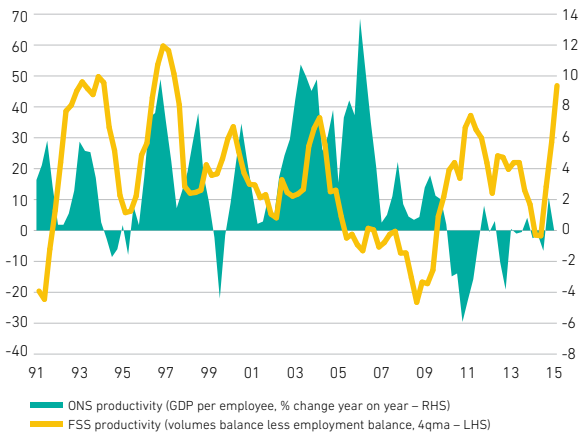
The CBI/PwC survey can shed fresh light on this puzzle. By comparing the survey balances for business volumes and employment, we can derive a measure of productivity growth that tells a very different story to the official data. After a period of rapid productivity growth through much of the 1990s and the early part of this century – most likely driven by a combination of technological advances, financial innovation and the globalisation of markets – the survey found that productivity began to weaken steadily from 2005, bottoming out only in the depths of the financial crisis as job losses peaked (**Exhibit 7**). This contrasts with the official data, which show continued productivity growth right through to 2009, in line with the increase in officially measured output.

Our derived measure of productivity lends credence to those who have argued that the surge in output and the concurrent 'productivity miracle' in the years immediately preceding the crisis was at least partly a mirage.[4] Moreover, it also raises a question over whether official data is over-estimating the collapse of productivity in financial services in the years since the financial crisis – a decline that helps to explain a good chunk of the weakness of productivity growth in the UK as a whole.

Warnings on financial stability

If productivity was in fact falling in the run up to the financial crisis, could we have more clearly seen that the high salary inflation at the time was unsustainable, a warning sign of trouble ahead? **Exhibit 8** emphasises that periods of strong productivity growth in the 1990s were mirrored by declining average costs and improved profitability, implying strong efficiency gains. In contrast, the period between 2006 and 2009 was marked by

Exhibit 7 Productivity: miracle or mirage?



Source: CBI/PwC, ONS

declining productivity, weakening profitability and rising costs, driven by a sharp increase in staff costs. Thankfully, the survey shows that these trends have now reversed, with productivity and profitability recovering strongly, despite some continuing pressure on costs.

Predicting episodes of financial instability is challenging to say the least; the nature of crises changes over time as economic and financial structures evolve. And as vulnerabilities in financial markets build, the trigger of market corrections or deeper crises is more often than not a matter of a self-fulfilling loss of confidence, the timing of which can be difficult to predict. So far, no single set of indicators (macro or micro) has been able to correctly predict various crisis episodes. So as well as numerical analysis, policymakers must also rely on their judgment, market intelligence and surveys such as ours when assessing risks to financial stability and the economy.

In this respect, one particularly useful indicator from the FSS is the balance for interest rate spreads, which are an important determinant of future economic activity. History tells us that credit spreads tend to be persistently low in the run-up to crisis episodes (reflecting a mispricing of risks). This was a trend that was well captured by the survey in the lead-up to the financial crisis. From early 2008, however, survey respondents overwhelmingly expected credit spreads to widen, signalling tighter credit conditions ahead (**Exhibit 9**). Our analysis finds a moderately strong negative correlation (of -0.6) between the survey balance for expected changes in spreads over the

Exhibit 8 Productivity, costs & profitability

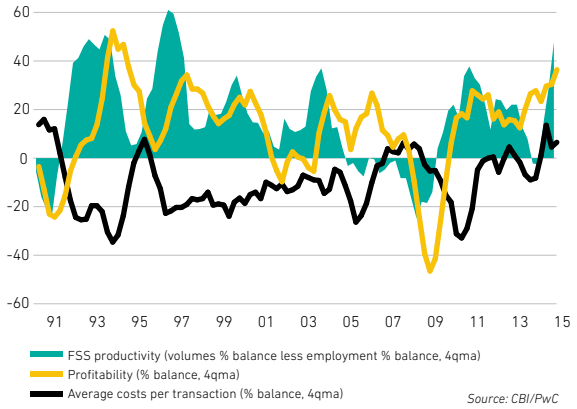
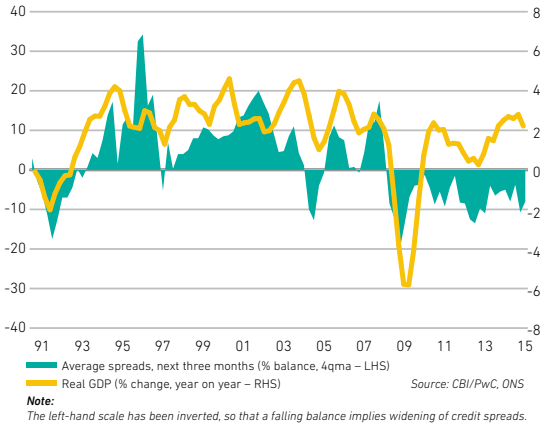


Exhibit 9 Spreads and GDP growth



coming three months and subsequent changes in real GDP growth over the same period, so that widening spreads tend to be accompanied by declining GDP growth.

The survey can also provide an insight into how changing financial and economic conditions are feeding through to the balance sheets of financial institutions. We found a moderately good correlation (+0.5) between expectations for non-performing loans and the Bank of England's data for write-offs as a share of outstanding loans over the equivalent period. Data on non-performing loans is often used as an indicator of strains within the financial system, but impaired loans tend to be a lagging indicator, and the figures are published with a delay of several months. So the survey's forward-looking balance provides a more timely assessment of emerging strains.

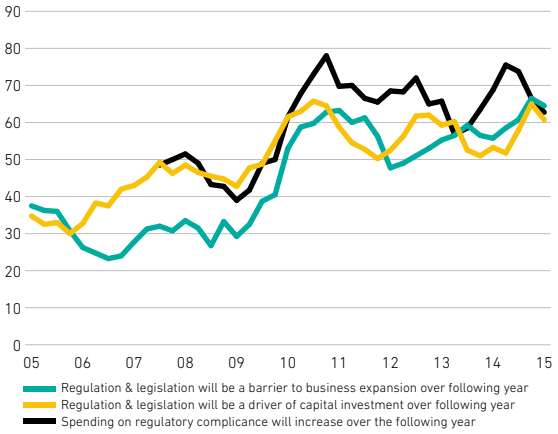
Adapting to new challenges

The financial services industry has undergone significant change during the quarter of a century the survey has been running. To keep pace, a business survey such as ours must be able to adapt too. For example, as the threat of cyber-crime has crept up the list of operational risks facing financial institutions in recent years, we have included supplementary questions tracking spending aimed at combatting cyber threats. The results highlight how seriously the issue is being treated by banks, which in March 2015 were almost unanimous in planning to raise spending over the year ahead.

Combatting the threat also appears to be an increasing priority for life insurers and investment managers, but is seemingly perceived as less of a priority in some other sectors (**Exhibit 10**).

Perhaps no development has shaped the operating environment for financial services firms in recent years more than the evolution of domestic and international regulation. The survey has faithfully tracked how firms have responded. The longest running question on this issue reveals that perceptions of legislation and regulation as a barrier to growth rose to their highest in 25 years during 2014 (**Exhibit 11**). Regulatory compliance has also become a major driver of planned investment.

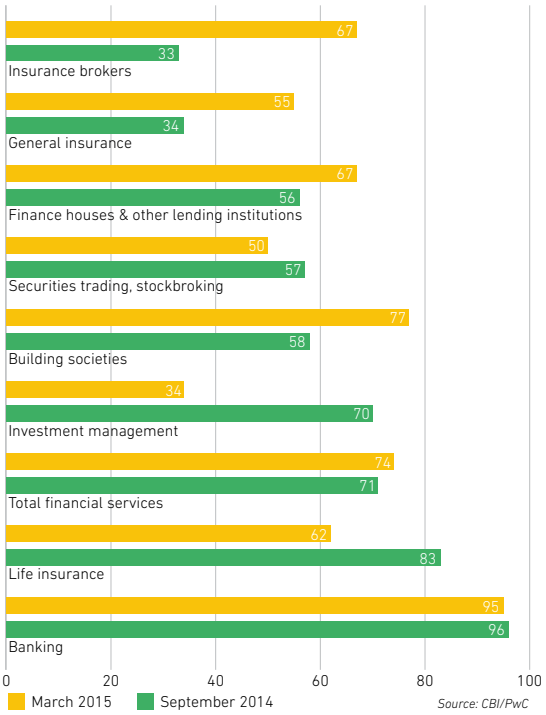
Exhibit 11 Perceptions of statutory regulation and legislation (% of firms 4qma)



Source: CBI/PwC

Exhibit 10 Spending to combat cyber crime

% balance of firms planning to increase or decrease spending to combat cybercrime over the following year



Source: CBI/PwC

Since 2009 we have asked financial services firms whether they believe changes in regulation are resulting in a more or less competitive UK financial services centre. Attitudes are overwhelmingly negative, with the share of respondents saying that the UK has become less competitive averaging around 65% over the past six years. However, when in December 2014 we asked firms how different international financial centres are expected to compare in five years' time, the UK managed to maintain its ranking in second place, behind New York. Perhaps this is a vote of confidence in the resilience of the sector and its ability to adapt to the regulatory, demographic, technological and competitive challenges that will shape the industry's development over the next quarter of a century.

The world will always need a financial services industry. But in the future now taking shape, it will demand one that blends capital, intellect and innovation with a genuine commitment to tackling global challenges and supporting progress in society

Surveying for the future

The CBI/PwC survey stands in the long tradition of CBI business surveys of the private sector – a lineage that dates back to 1958 with the introduction of the industrial trends survey of UK manufacturing. The value to policymakers of private sector business survey data such as the CBI's was well illustrated in a recent speech by one of the Bank of England's external members of the Monetary Policy Committee, Ian McCafferty, who concluded that: *"Survey data is a complementary good and needs to sit alongside the official data as a means to help policymakers frame their economic judgements."*[5]

In recognition of this important role, since 2009 the financial services survey has included questions expressly commissioned by the monetary analysis division at the Bank, covering past and expected changes in the general level of selling prices, firms' own selling price/commissions/fees and wage/salary costs per person employed. This data provides valuable granular insights that can further enhance the available information on the sector for the Bank's Monetary Policy Committee.

International policymakers have also demonstrated a keen interest in the survey results. During the global financial crisis, special questions exploring the impact and extent of the 'credit crunch' were a great help to policymakers and analysts, including those at the European Commission, who were eager for more economic intelligence during a turbulent time. Using the survey for complementary research in these ways has proved to be a successful addition to its net value.

The CBI is proud to have worked with PwC through the life of the financial services survey and we look forward to developing the survey in the decades to come. The survey questionnaire has been modified significantly over these 25 years, based on regular reviews conducted by CBI and PwC to ensure our questions remain as relevant to as wide an audience as possible. Reflecting the CBI survey research tradition, we have also been able to enhance the quarterly survey data by conducting periodic answering practices enquiries, which drill down into respondents' motivations and help us detect changes in response behaviour and individual sectors. These enquiries are an essential complement to our interpretation and analysis of the regular survey data now and in the future.

Indeed, while the wealth of information provided by the financial services survey justifies the attention it receives, we will not be resting on our laurels. As with all survey practitioners, an ever-present challenge for the CBI survey team relates to the difficulties of sampling and representation. New entrants can quickly erode traditional market segmentation and regular recruitment drives are an imperative to ensure that the survey keeps pace with the changing landscape of the financial services industry.

This leads to the most important point of all. Without the loyal support of the survey respondents, we would not be marking this 25th anniversary at all. So we would like to take this opportunity to thank wholeheartedly the regular survey participants for their time and dedication in responding. Their data and goodwill are central to the success of this survey.

Taking part in the survey

If you would like to take part in the CBI/PwC financial services survey or receive a sample soft copy of the subscription-based full results report, please contact **surveymanagementgroup@cbi.org.uk**

CBI survey colleagues will be pleased to assist you and also provide you with the choice of postal or electronic questionnaire.

All respondents receive a complimentary copy of the latest aggregate and sector survey data. Further information on the survey itself can be found at **http://www.cbi.org.uk/business-issues/economy**

CBI members **and** non-member companies are eligible to participate in our surveys.

About the financial services survey

Launched in December 1989, the CBI/PwC financial services survey offers quarterly insights into recent and expected trends across the industry. With both backward and forward-looking questions, the survey provides timely indicators for a range of economic statistics, such as the value and volume of business, pricing, costs, profitability, employment and training expenditure. The survey also yields important insights into variables that are not quantified in official data, such as business confidence, the extent of labour shortages, investment intentions, business strategies and perceptions of risks. These core questions remain the same, allowing trends to be tracked quarter-by-quarter. Ad hoc 'supplementary questions' allow for deeper insights into key topical issues.

The survey's simple structure and methodology are key to the speed of its publication. Respondents are asked to describe changes in variables using simple value bands (such as 'more' or 'less', 'up' or 'down'). The weighted responses are then used to calculate 'percentage balance statistics' – the difference between the percentage of companies answering in the positive, minus the percentage replying in the negative. Correctly interpreted, the balance statistic is a convenient tool for business cycle analysis, providing a good guide to the change in the underlying variables: whether it is increasing or decreasing, and speeding up or slowing down. The survey thus gives economic commentators and policymakers an early steer on trends in the sector, with the FSS results typically published weeks ahead of equivalent official data.

The survey takes in a broad range of activities, covering banking, building societies, finance houses and other lending institutions, general and life insurance, insurance brokers, investment management (covering funds, pensions and trusts), securities trading and stock broking, private equity and other financial institutions. Respondents will typically be the key decision makers – CE/CEO/FD and partner level. Survey responses are weighted according to the size of the company and combined on a strictly anonymous basis into a final aggregate response.

Footnotes

1 For a summary, see *The Bank of England Credit Conditions Survey*, Bank of England Quarterly Bulletin, Q3 2007

2 While the value of some activities can be easily measured by the fees & commissions charged for services, this is not the case where there are no explicit charges, for example when using banks' payment, settlement & transaction services, or for the arrangement of a loan. To capture the value or 'output' created by such services statisticians use the concept of FISIM (Financial Intermediation Services Indirectly Measured) – which measures net interest flows applied to stocks of loans or deposits. These flows account for a substantial 57% of the total output in banks, building societies and other financial intermediaries, according to the ONS

3 For example, because of measurement issues in the official FS output data, as outlined earlier

4 *What is the contribution of the financial sector: miracle or mirage*? Andrew Haldane, in *The future of finance,* LSE/CEPR 2010.

5 'The use of business intelligence in monetary policy'. Speech given by Ian McCafferty, external member of the Monetary Policy Committee, Bank of England, fifth International workshop on Central Bank Business Surveys, London 2014

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