

Global Financial Markets: Regional Trends 2010

OVERVIEW

This new report from TheCityUK brings together and compares the size of 17 key financial markets across broad country and regional groupings.

Regional and markets breakdown The breakdown is based on the US, Europe, Japan, rest of Asia and rest of the world. The emphasis placed on Europe for this report reflects London's broader sphere of influence as Europe's global financial centre. Japan is separated out from the rest of Asia to draw attention to trends in emerging countries in Asia. The markets are a mix, firstly, of international or wholesale markets, such as investment banking, hedge funds, derivatives and foreign exchange; and secondly of markets with a stronger domestic and retail focus, such as commercial banking, life & general insurance, pension assets and mutual funds.

Developments in 2009 The global financial markets under review were almost equally divided with 9 showing growth between 2008 and 2009 and 8 showing a decline (Table 1). The repercussions of financial crisis and recession continued to weigh on some markets, such as commercial banking, insurance, equity issuance, private equity and exchange-traded derivatives. Those benefitting from recovery included investment banking, domestic debt (to finance fiscal deficits), turnover of equity markets, and assets of mutual and pension funds.

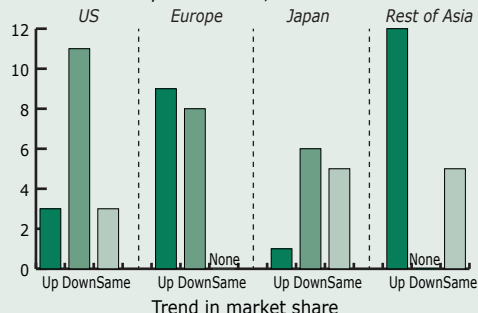
Medium term trends 2004-2009 Medium term trends over the five years between 2004 and 2009 in Charts 1 & 2 reveal that:

- Europe overall has held its own increasing its share in 9 markets while losing share in 8 markets.
- The US position overall has deteriorated having improved its relative position in just 3 markets but fallen back in 11 and stable in 3.
- Japan's position has declined in 5 of the 12 markets for which data are available; its share has been broadly stable in 6 and risen in 1.
- Meanwhile the position of the rest of Asia has markedly improved. Although market share is typically much lower than Europe and the US, between 5% to 20% in most markets, the share of the rest of Asia has increased in 12 of the 17 markets where data are available, and is broadly stable in the remaining 5.

Growth in Asia's share is in part due to growth in economies of China, India and other countries, which is generating more domestic demand for financial services, such as insurance, banking and equity finance. This trend has been emphasised in the past two years as many Asian countries have continued to grow while recession has affected Western countries. By contrast, the share of

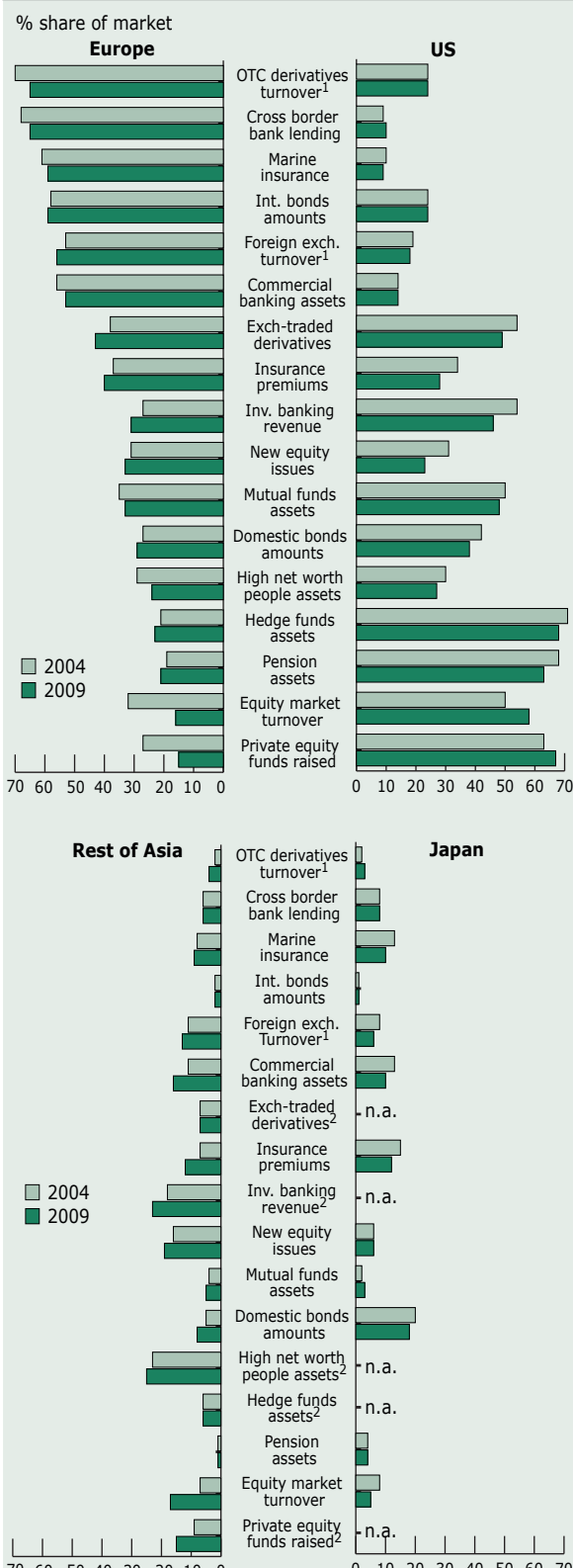
Chart 2 Regional trends in global market share

Number of markets where global share has increased, decreased or stayed the same, 2004-2009



Sources: Based on sources used in each section of report

Chart 1 Financial markets regional share



¹April 2007 & April 2010

²Rest of Asia includes Japan

Sources as listed in charts in each section of the report

non-Japan Asia in wholesale and international financial markets has been relatively stable. For example, the region's share of international bank lending, international bond issuance and exchange-trade derivatives is unchanged over the past five years. In foreign exchange and OTC derivatives the share of non-Japan Asia has risen slightly to 13% and 3% respectively. This indicates that while the profile and importance of key regional centres, such as Hong Kong and Singapore is growing, the bulk of international business is still concentrated in Europe, particularly the UK, and the US.

INSURANCE

The two indicators used for insurance are the total volume of insurance business undertaken and that portion of general insurance business that relates to higher risk marine business.

Global insurance Insurance undertaken globally includes both life insurance and non-life business, such as household and motor insurance, sold to individuals. The global market for insurance dropped by 4% from \$4.22 trillion in 2009 to \$4.07 trillion in 2008. Europe has been the largest market for life and non-life insurance since 2003 accounting for around 40% of the market in recent years. Insurance premiums in Europe dropped to \$1,611bn in 2008, still well ahead of \$1,140bn in the US (Chart 3). The biggest growth region has been Asia (excluding Japan) where the global market share has risen from 7.5% in 2004 to 11.9% in 2009. Market share of the US has declined from 34% to 28% and in Japan from 15% to 12% over the same period.

International marine insurance A minority of general insurance business relates to premiums on higher risk international insurance business undertaken, for example, to insure marine and aviation risks as well as reinsurance business. International comparisons are only available for marine business and these show that marine insurance premiums fell by 2% in 2009 to \$22.9bn. Market shares have generally been relatively stable over the past decade (Chart 4). In 2009 Europe's share was 59% down from a peak of 61% between 2004 and 2006. The shares of Japan and the US have each fallen by about 2% to 10% and 9% respectively. The

Chart 3 Life & non-life insurance premiums

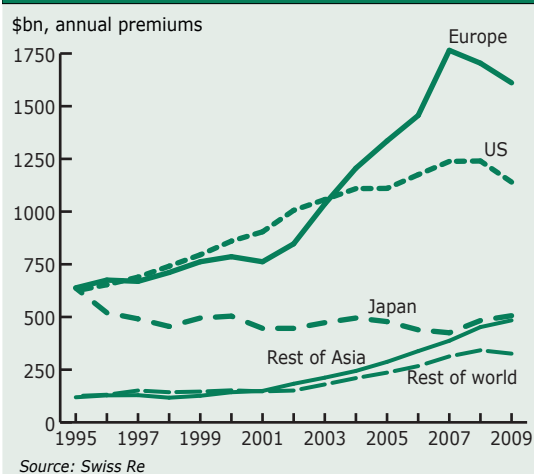


Chart 4 Marine insurance

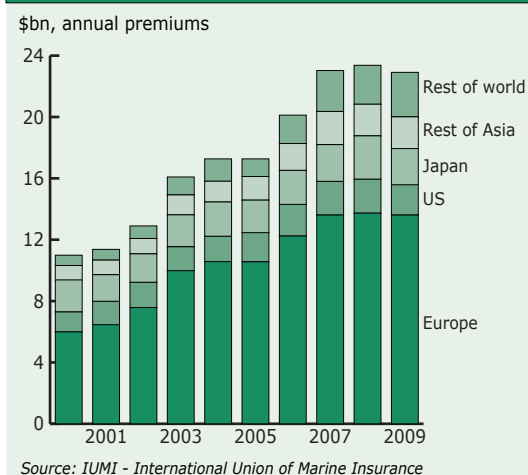


Table 2 Regional share of global financial markets

Sectors	Markets		2008	2009	-----% share in 2009-----				
					Europe	US	Japan	Rest of Asia	Rest of world
Banking	Investment banking revenue ²	\$bn	58.9	66.3	33	50	--	--	16
	Cross-border bank lending	\$ trillion	31.2	30.0	65	10	8	6	11
	Commercial banking, assets	\$ trillion	96.4	95.5	53	14	10	16	7
Insurance	Insurance, global premiums	\$bn	4220	4066	40	28	12	12	8
	Marine insurance	\$bn	23.4	22.9	59	9	10	9	13
Fund mgt.	Pension assets	\$ trillion	25.9	28.8	21	63	4	1	12
	Mutual funds assets	\$ trillion	18.9	23.0	33	48	3	5	11
	Assets of high net worth individuals ¹	\$ trillion	32.8	39.0	24	27	--	25	24
	Hedge funds, assets under mgt. ¹	\$bn	1500	1700	23	68	--	6	3
	Private equity, amounts invested ¹	\$bn	181	91	15	67	--	15	3
Securities	Equity market turnover	\$ trillion	114	81	16	58	5	17	4
	Domestic bonds, amounts outstanding	\$ trillion	59.3	65.1	29	38	18	8	7
	Int. bonds, amounts outstanding	\$ trillion	27	25.6	24	59	1	2	15
	New equity issues	\$bn	1010	1054	33	23	6	19	19
Derivatives	OTC derivatives, av.daily turnover ³	\$bn	2173	2698	65	24	2	3	5
	Exchange-traded derivatives turnover ¹	\$ trillion	2209	1660	43	49	--	7	1
Forex	Foreign exch. turnover, av.daily turnover ³	\$bn	4281	5056	56	18	6	13	8

¹Japan included in Rest of Asia

²Asia included in Rest of world

³Data are for April 2007 & April 2010

Sources: Sources as listed in charts in each section of the report

UK remains the largest market in Europe and globally with a market share of 21% in 2009. Non-Japan Asia was at 9% in 2009 little changed from recent years while the share of the rest of the world was up to 13% in 2009.

BANKING

For comparators on banking three key indicators are considered: investment banking revenue, total commercial bank assets and international lending by commercial banks:

Investment banking Global revenue from investment banking recovered by 13% in 2009 following the steep decline of 30% in 2008 in the wake of the financial crisis and economic downturn. Based on customer location investment banking revenue generated in the US and Europe rose by 6% and 3% respectively but in Asia there was a substantial 55% rise from \$9.7bn to \$15.1bn (Chart 5). Having risen gradually in previous years, Asia's market share jumped from 17% in 2008 to 23% in 2009. The US remains the largest market with 46% of global revenue while Europe accounts for 31%.

Commercial banking Total global assets of commercial banks, based on the Banker's annual survey of the Top 1000 world banks, fell slightly to \$95.5 trillion in 2009 from a high of \$96.4 trillion. Europe remains the largest region for commercial banking with assets totalling \$50.6 trillion in 2009, down from the peak of \$56.3 trillion in 2007, and market share dropping from 61% to 53%. (Chart 6). By contrast, total assets in Asia, excluding Japan, have increased by 38% in the past two years from \$11.1 trillion to \$15.3 trillion, with market share up from 12% to 16%. Assets of US banks have also grown in the past two years from \$10.2 trillion to \$13.1 trillion, although the banking sector remains small relative to that in Europe.

The disparity between Europe and US is attributable to a number of factors, including the larger amount of international business undertaken by European banks and a lower savings ratio in the US, with savings there being more likely to be invested in equities and mutual funds than in bank deposits. In Europe banks are the main providers of mortgage finance, whereas much of the US mortgage market is financed outside the banking sector by the nationalised federal agencies.

International bank lending The volume of international cross-border bank lending reported to the Bank for International Settlements has dropped by 10% from \$33.4bn in 2007 to \$30.0 trillion in 2009. Such lending is still dominated by European countries, although their share of such lending has eased from 69% to 65% between 2007 and 2009 (Chart 7). The share of the US and Japan has edged up to 10% and 6% over the past two years. The share in the rest of Asia has been relatively stable at 6% over the past five years and has declined from 9% in 2000.

Chart 5 Investment banking revenue by customer location

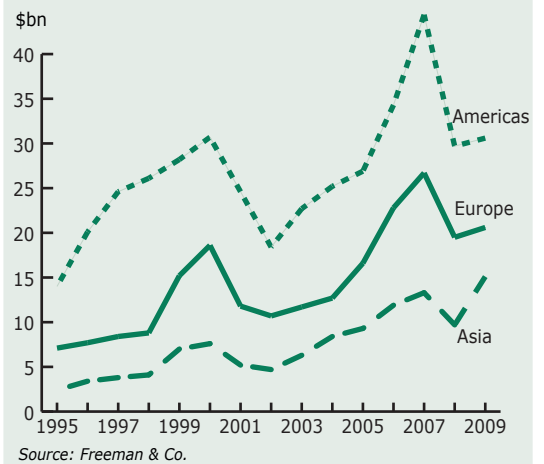


Chart 6 Commercial bank assets

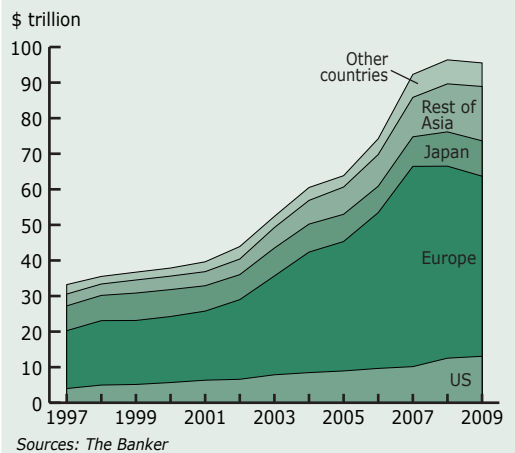
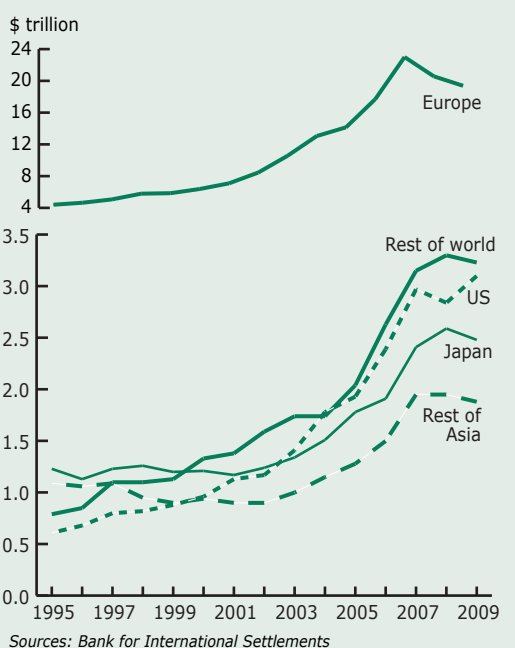


Chart 7 International bank lending



SECURITIES MARKETS

Equity markets Equity turnover in the US, Europe and Japan fell sharply in 2009, affected by economic recession. By contrast turnover in the rest of Asia picked up strongly: at \$13.5 trillion it was slightly ahead of turnover in Europe totalling \$13.0 trillion (Chart 8). Asia, excluding Japan, and Europe accounted for 17% and 16% of global turnover, with the US remaining the dominant market with 58% of turnover. Japan's share has been relatively stable at around 5% over the past decade, although much lower than the quarter of trading it accounted for in 1990. Europe's 16% share has nearly halved in the past three years.

New equity capital Funds raised worldwide through new equity capital have continued to rise in 2009, despite a downturn in the US, Europe and Japan (Chart 9). A third of equity capital was raised in Europe, the largest market despite falling 14% to \$342bn. New equity in the US was down 16% to \$242bn, just under a quarter of the total. Japan accounts for 6% of funds raise, the rest of Asia 19% and other countries a further 19%.

Bond markets The total amount outstanding of all *domestic bonds* issued by government, companies and other institutions globally rose by 10% to \$65.1 trillion in 2009. The increase was mainly concentrated in Europe where bonds increased from \$16.0 trillion to \$18.9 trillion. US bonds rose slightly to \$25.0 trillion at end-2009: the US share of domestic bonds fell from 41% to 38%, although it remained the biggest market (Chart 10). Japan accounts for 18% and the rest of Asia 8%, having risen from 5% over the previous five years.

International bonds With bonds issued and traded internationally governments and organisations in Europe had issued international bonds totalling \$15.0 trillion outstanding at end-2009: 59% of international bonds worldwide nearly three times the \$6.2 trillion of bonds outstanding of US issuers (Chart 11). Issuance of international bonds in Asia is limited at \$0.5 trillion in total, partly a consequence of the large surpluses the main Asian countries run on their balance of payments current account.

Chart 8 Equity market turnover



Chart 9 New equity capital raised



Chart 10 Domestic debt securities

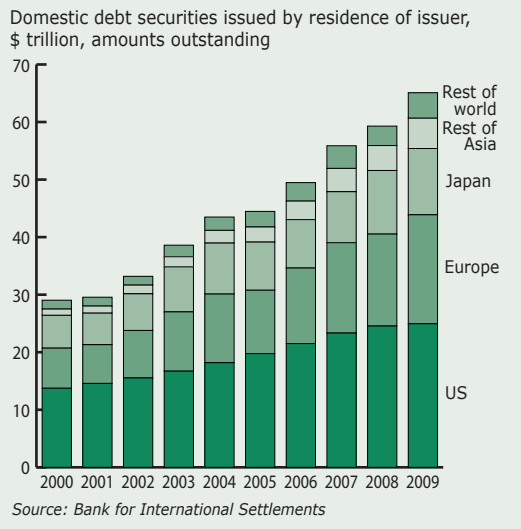
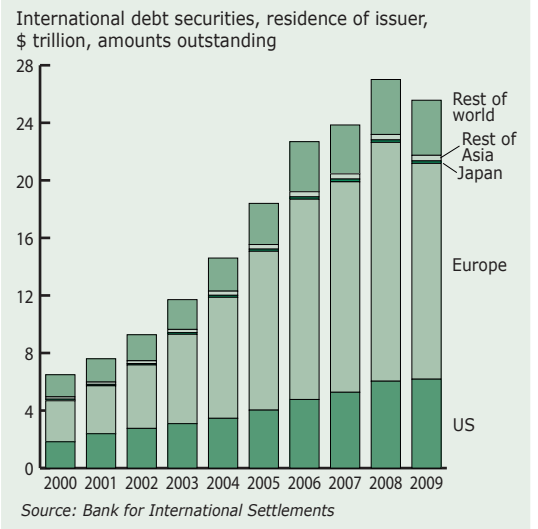


Chart 11 International debt securities



FUND MANAGEMENT

This section reviews the value of pension funds and mutual funds under management. Assets managed by the insurance industry are not included due to limited global coverage. Other areas of fund management featured include private wealth management, private equity and hedge funds.

Pension assets Global pension assets totalled an estimated \$28.8 trillion at end-2009. The US remains by far the largest market with 63% of assets up on 60% in 2008, when the US was more affected by the drop in equity markets (Chart 12). Over the past decade the US share has dropped from 73% as assets in Europe have grown from \$2.7bn to \$6.0bn, generating a rise in global share from 16% to 21%. The smaller size of pension assets in Europe is largely a reflection of the traditional pay-as-you-go funding of pensions in the larger European economies of Germany, France and Italy. This has begun to change in these and other European countries following reform of pension provision, with greater emphasis on individual or corporate funding. Pre-funding of pensions in Europe traditionally has been confined mainly to the UK, Netherlands, Ireland, Switzerland and Sweden.

Pension assets of \$1.0bn in Japan account for 4% of the world market, a share that has been relatively stable in recent years. In the rest of Asia assets have risen from \$0.03bn to \$0.32bn over the past decade, with a share of global market up from 0.2% to 1.1%. Pension assets in the rest of the world have grown from \$1.1bn to \$3.3bn, 12% of the total: Canada and Australia account for the majority of these assets, with growth also in emerging markets in Latin America and Asia.

Mutual funds The US accounts for about half of the global mutual fund assets totalling \$23 trillion, with Europe accounting for a third (Chart 13). The greater size of mutual funds in the US is due to substantial investment in equities by US private investors. Mutual fund investments in Japan total \$0.7bn, 3% of the global market. Some \$1.1bn is invested in the rest of Asia, 5% of assets worldwide, a share that has risen from 3% in the early years of the decade.

Private wealth management High net worth individuals (NWIs) include those people with disposable assets in excess of \$1m. The latest annual World Wealth report by Merrill Lynch Capgemini estimated that in 2009 assets of high NWIs increased by 19% to \$39.0 trillion. Assets are relatively evenly divided between North America, Europe and Asia Pacific, each accounting for around \$10bn equivalent to a quarter of assets. The share of assets in Europe has fallen from 32% to 24% over the past decade, while the share of assets in Asia Pacific increased from 20% to 25% (Chart 14).

Hedge funds The global hedge fund industry has staged a recovery in 2009, having been heavily affected in 2008 by the economic downturn and by negative sentiment amongst investors. The US remains the dominant market with 68% share, followed by Europe with 23%, while Asia has 6% and rest of the world 3% (Chart 15). These shares have been largely unchanged in recent years.

Private equity The private equity market is a key source of funds for startup and young firms, firms in financial distress and those seeking

Chart 12 Pension assets



Chart 13 Mutual funds

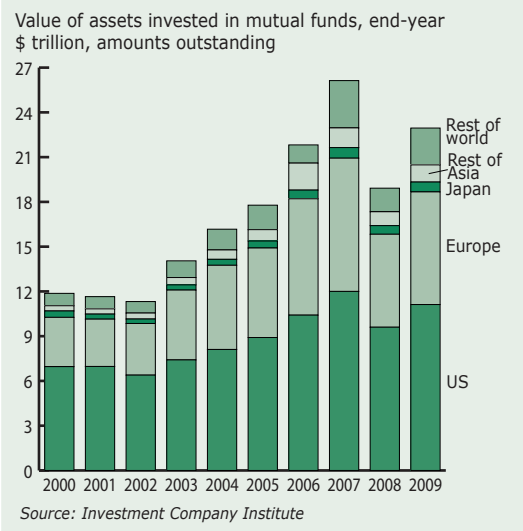
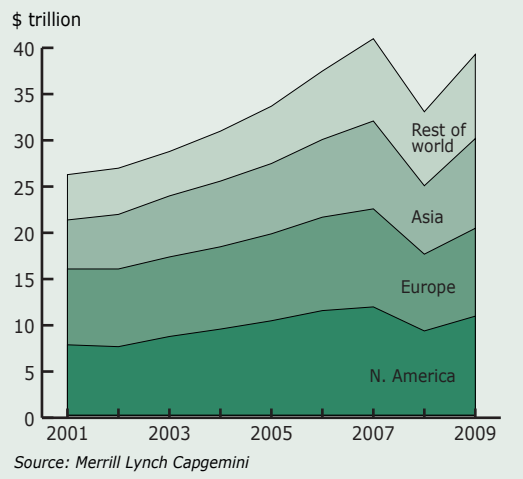


Chart 14 Assets of high net worth individuals



buyout financing. The value of fund raised in the global private equity market dropped by two thirds to \$150bn in 2009 from \$459bn in 2008 (Chart 16). Funds raised in Europe slumped to \$22bn from \$113bn and accounted for only 15% of the global market, less than half its share in 2006. North America remains the dominant market with two thirds of funds raised. The share of Asia rose from 11% to 15%.

DERIVATIVES MARKETS

The volume of activity in Europe and the US can be compared in both the over-the-counter (OTC) and exchange-traded derivatives markets. Based on notional amounts outstanding, the OTC derivatives markets worldwide are about four times the size of the exchanges.

OTC derivatives markets Locational activity in OTC derivatives markets is measured in worldwide BIS-coordinated surveys every three years. Average daily turnover of interest rate derivatives rose by nearly a quarter to \$2,698bn in the three years to April 2010. Europe’s share of OTC derivatives has edged down over the past decade from 70% in April 2001 to 65% in April 2010. Activity in Europe has become increasingly concentrated in the UK, whose global share has risen from 35% to 46% during these nine years. The share of US and Japan has been relatively stable in the past three surveys, at 24% and 3% respectively, while that of the rest of Asia has edged up from 1.7% in 2004 to 4.3% in 2010.

Exchange traded derivatives markets Turnover of exchange traded derivatives peaked in 2007 at \$2,288 trillion: before easing back 3% in 2008 and then declining a steep 25% in 2009 to \$1,660 trillion. While there are around 75 derivatives exchanges globally, the value of global turnover on derivatives exchanges is heavily concentrated at CME Group in the US and at NYSE Liffe and Eurex in Europe (Chart 18). Consequently, 49% of turnover is in the US and 43% in Europe. Between 2005 and 2009 Europe’s share has increased from 32% while that of the US has fallen from 59%. Asia’s share has been stable at around 7% in recent years.

FOREIGN EXCHANGE

Results of the three-yearly BIS survey show foreign exchange trading rose by 18% from \$4,281bn per day in April 2007 to \$5,056 in April 2010. The regional breakdown is unchanged with Europe accounting for the majority of trading at 56%; the US 18%; and Asia, excluding Japan, 13% (Chart 19). The UK accounted for two thirds of turnover in Europe as its global share rose from 35% to 37%.

Chart 15 Hedge funds

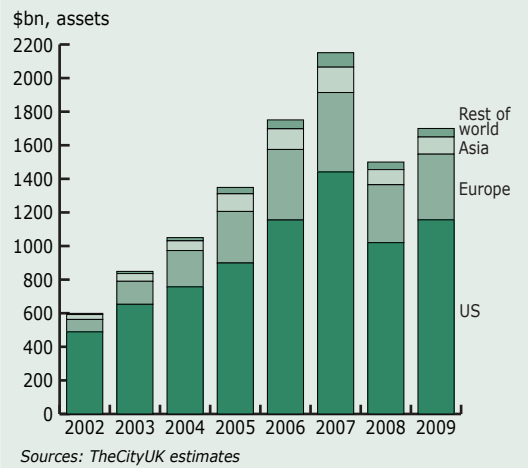


Chart 16 Private equity

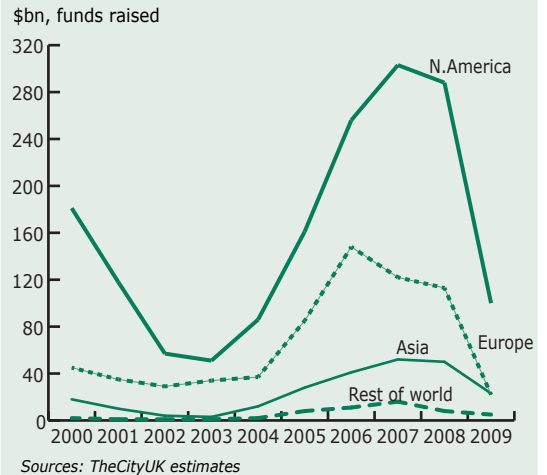
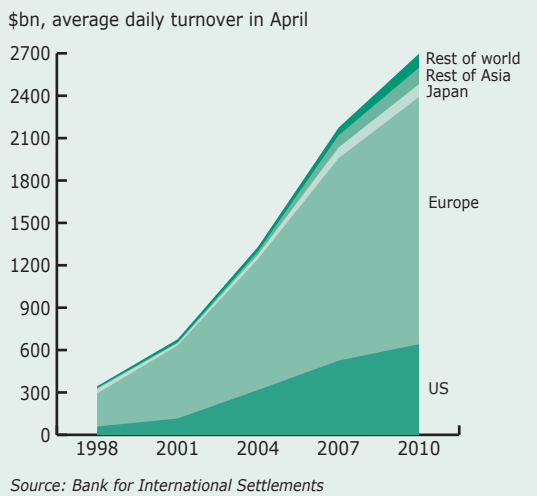


Chart 17 Interest rate OTC derivatives markets



SOURCES**Bank for International Settlements**

Triennial survey of Foreign Exchange and OTC Derivatives Markets
International Banking and Financial Market Developments (quarterly)
www.bis.org

European Insurance and Reinsurance Association

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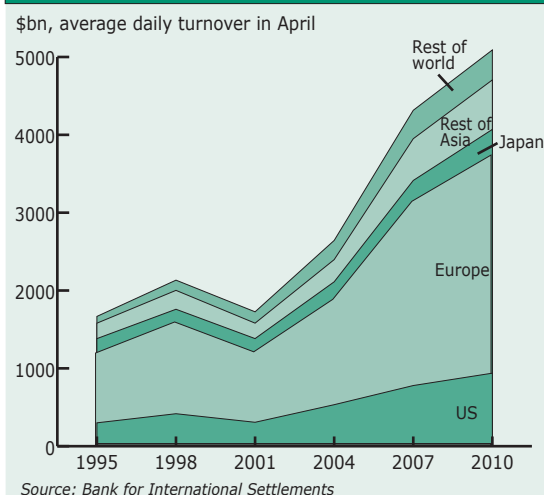
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Equity Capital Markets Review
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World Federation of Exchanges

Data on turnover and market value of equities
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Chart 18 Exchange-traded derivatives markets**Chart 19 Foreign exchange trading**

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TheCityUK Research Centre:

Report author:

Duncan McKenzie, Senior Manager Economic Research

duncan.mckenzie@TheCityUK.com

+44 (0)20 7776 8976

For further information about our work, or to comment on the programme/reports, please contact:

Leslie Sopp, Head of Research

leslie.sopp@TheCityUK.com

+44 (0)20 7776 8979

TheCityUK, 65a Basinghall Street, EC2V 5DZ

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