Eurozone

EY Eurozone Forecast

Autumn 2013

Outlook for financial services

EY

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Welcome

It's not often I start my commentary with encouraging economic news from the Eurozone. Over the summer, the largest member states showed signs that a sustainable recovery may finally be underway. The re-election of Chancellor Merkel will ensure the slow, but exorable, progress toward a single European supervisory system for financial services continues.

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So can we now expect the Eurozone to travel smoothly on the autobahn to the "sunny uplands" of rising GDP, and financial services to return to stability and profitability? Well, not exactly. A number of potholes and traffic hazards remain – not least the unintended consequences and legacy of well-intentioned regulation.

This September was five years since Lehman's collapsed. The regulatory response to the subsequent crisis has focused on addressing systemic

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institutions, bolstering capital levels and liquidity. Understandably, the focus has been on making the system safer to avoid future taxpayer capital calls. The institutions have responded by deleveraging, exiting capital intensive or unprofitable business and reorganizing. Management's mantra has been on the 4Cs of capital, compliance, controls and costs — not growth or expansion. This has acted as a drag on credit extension into the wider Eurozone and had a negative impact on recovery.

At this time, it is unclear whether the first step toward the proposed Single Supervisory Mechanism (SSM) for the Eurozone's largest banks — the Asset Quality Review (AQR) — will allow the European banking system to begin the transition to a growth agenda or will trigger a further round of restructuring and capital raising.

The European Central Bank (ECB) has a difficult challenge. The AQR process must give confidence to investors and tax payers that the reported asset quality at 130+ banks in 17 countries is realistic, but not overly prudent. The next few months will not only tell us much more about the risks on banks' balance sheets, but also the likely philosophy of the ECB's approach to banking supervision. Many expect the AQR to be a catalyst to encourage more restructuring and consolidation across the Eurozone's fragmented banking system.

Somewhat ironically, many banks are now focused on preparing for the AQR process, just as credit demand is starting to rise. The Eurozone's small and medium-sized enterprises (SMEs), keen to invest for the recovery, are particularly in need of funding. It will also be interesting to see whether other institutions meet the demand while banks complete the balance sheet repair process. Payday lenders are making a mark in many retail markets, and large corporations are increasingly turning to direct loans from private equity funds. Innovations such as peer-to-peer lending are growing (in the US and the UK), but have yet to have a material effect on SME lending in the Eurozone. However, growing interest from asset managers could mark the start of a new trend in the Eurozone's credit markets.

Looking more broadly across financial services, the prospect of three more years of a very low interest rate environment will pose a serious challenge to firms across the Eurozone. The longer rates remain low, the greater the pressure they put on investment returns and balance sheets. Insurers and life insurers are the worst affected. Still, there is hope that European investment returns may improve as international capital shifts away from safe haven asset classes and direct investment in emerging markets. This could lead to a recovery in European equities, with blue chip companies offering investors a combination of global upside and exposure to the European recovery. We should also see "alternatives" become more mainstream, with investors increasingly targeting hedge funds, real estate and private equity funds in the search for yield.

But the search for investment yields and the resulting provider innovation will represent an emerging risk given the increasing emphasis on conduct risk by many regulators. Financial services companies need to be mindful of the targeting and distribution of product guarantees or specific buyer discounts to avoid sowing the regulatory risks of tomorrow.

These potential risks bring us back to where we started: regulation. The combination of tougher prudential supervision and growing scrutiny on financial conduct underlines the increasingly central role that regulation is playing in the evolution of Europe's financial industry.

During the early stages of the present recovery we need to think through how implementation of the regulation framework can make the financial system not only safer, but also more effective. Europe needs an effective financial system and firms able to compete successfully in both local and international markets.

Macroeconomic overview

The Eurozone has emerged from its longest recession in at least three decades, with quarterly growth of 0.3% in Q2. Although GDP is still expected to fall by 0.5% this year, activity will gradually pick up. Growth just shy of 1% is forecast for 2014, rising to some 1.5% a year in 2015–17.

Core Eurozone countries are leading the return to growth ...

The core Eurozone countries have started to report rising activity, and the periphery is seeing output decline at a slower pace than previously seen. Indicators such as the Purchasing Managers' Index and consumer and manufacturing confidence, point to a further modest improvement over the second half of 2013. The main triggers will be an easing of austerity and a recovery in world trade, led by stronger growth in the US. Lower inflation has reduced the squeeze on household finances and stabilized consumer spending. Reduced risks have improved the investment climate for businesses.

... supported by easing austerity and improved world trade ...

The chances of a stronger domestic recovery have certainly increased since the authorities softened their rhetoric on fiscal austerity. The decision by the European Commission (EC) to give seven member states more time to meet their budget deficit targets has removed the need for any further near-term austerity measures. In addition, current fiscal plans imply that the pace of fiscal tightening is set to fall from 0.8% of GDP this year, to around 0.5% in 2014–15. The external environment is also becoming increasingly supportive, led by the US, where most indicators point to a strong recovery in the second half of 2013. The UK, another key trading partner, is also showing signs of life. For now, some of these opportunities are compromised by a high exchange rate — we estimate that the euro is currently overvalued by around 8%. But we expect the euro to depreciate from its current rate of around €1.30 to the dollar, to €1.22, by the end of 2014. This would deliver a sizeable boost to export competitiveness to complement supportive structural reforms in peripheral economies.

... but the pickup will be slow, as public and private sectors deleverage

Several factors will act as obstacles to a stronger recovery, however. One short-term factor is that it will take some time for the recovery to become sufficiently entrenched to create new jobs. Unemployment will therefore continue to rise, especially in the periphery, and is not expected to peak until mid-2014, at 12.6%. This will offset some of the benefits of lower inflation, limiting the boost to real household incomes and holding back consumer spending to just 0.4% in 2014, and 1.1% in 2015. But both the private and public sectors still have to deleverage. Though 2014 is set to see much less aggressive fiscal tightening than in 2012 or 2013, there is much work still to be done over the medium term to reduce debt levels and keep repayments manageable, especially in the periphery. Realistically, this condemns the Eurozone to a decade of austerity, holding back longer-term growth. Many European banks still need to raise capital and cut borrowing, which will reduce lending further. Debt held by Eurozone financial institutions has so far fallen little — it is now the equivalent of 143% of GDP, compared with 146% in early 2009. By comparison, the equivalent decline in the US has been from 123% of GDP to 87%, returning the ratio to levels last seen in 2001.

Executive summary

Deposits

4.4%

Bank deposits forecast to increase by 4.4% a year in 2015–17, contributing to profitability in most Eurozone countries.

Banking sector highlights

- Total lending set to increase by 3.2% to €12,440b in 2014, as the Eurozone finally emerges from recession.
- Lending growth will be particularly strong in Germany, at over 5% this year, where business investment is already picking up.
- The ECB's AQR, due to start early next year, has encouraged a rise in provisioning against non-performing loans (NPLs). NPLs are forecast to peak at 7.8% of total loans in 2013.
- Total bank operating income is expected to rise 7.1% in 2014, as banks put the worst of provisioning behind them.
- Deposit growth of 4.4% a year in 2015–17 will contribute to profitability in most Eurozone countries, with Cyprus a notable exception.

Life premiums

2.7%

Average life premiums are expected to stabilize this year before growing 2.7% a year in 2014–17.

Insurance sector highlights

- Pressure on life premiums will ease as household incomes start to rise again. Premiums are forecast to average 2.7% growth a year in 2014–17.
- Average non-life insurance premiums are set to grow 1.3% across the Eurozone this year, but Germany will see growth of 4%, ahead of the rest of Europe.
- In southern Europe, the difficult economic environment will limit rate increases, especially in motor policies. For example, new car registrations are expected to fall by 7% this year in Italy.
- Continued low interest rates, the challenges of Solvency II, and a steadily aging population will encourage the development of new products, including those related to retirement and care.

AUMs

€4,817b

AUMs in Eurozone funds will increase by 6.1% this year to reach €4,817b.

Asset management sector highlights

- Assets under management (AUMs) in pan-European funds are forecast to rise 6.1% in 2013, to €4,817b, but growth will then slow to less than 4% in 2014–17.
- Equity funds are set to outperform other asset classes, as investors gradually leave safe-havens. AUMs in pan-European equity funds forecast to increase over 50% between 2012 and 2017, to €2,079b.
- AUMs in bond funds will see little overall growth in the next five years, up just over 5% in 2013–17, as investors move out of bonds in core countries. However, peripheral markets will continue to expand, with bond AUMs in Spain forecast to rise by 33% and in Italy by 16% over the same period.
- Alternative investments, such as property market funds, will become more popular, especially in Germany, where a 2% increase in property AUMs is expected in 2013.

Banking forecast

Lending to increase in 2014 as economy emerges from recession

A return to growth in the Eurozone heralds better prospects for the banking industry. We therefore expect 2013 to mark the bottom of the current cycle. Total lending is forecast to be 1.2% lower in 2013 than in 2012, but will then pick up by 3.2% to reach €12,440b in 2014. The fall in lending this year is greater than we had previously forecast. This is partly the result of the impending AQR, which has prompted some balance sheet reduction.

We expect both personal and corporate lending to begin to pick up again next year. As confidence slowly returns, personal lending is set to increase by 1.5% to €4,473b in 2014, rising to €4,851b by 2017, 18% above the pre-crisis peak in 2008. We expect corporate lending to expand by 3.8% to €4,635b in 2014, reaching €5,366b by 2017, 11% above the 2008 peak. Lending growth could return more quickly if the authorities adopt a two-step approach to the recovery process. There are already signs that bank deleveraging – the first step – is speeding up, freeing resources for fresh lending. Additional support from the ECB could encourage banks to increase lending, particularly to SMEs.

Business investment set to rise ...

At present, however, surveys show that the demand for bank lending from companies is still falling as they continue to deleverage. The good news is that the rate of decline is slowing, according to the ECB's latest bank lending survey, although firms are still reluctant to borrow in order to invest. But, for some corporates at least, the deleveraging process is now coming to an end. Improving GDP growth and credit conditions will gradually feed an increased willingness to borrow. After contracting for seven consecutive quarters we expect business investment to pick up again this year, as companies become more confident about the economic outlook. Lending growth will be particularly strong in Germany, where business confidence has improved markedly in response to rising domestic consumption and investment, amid signs that exports are at last beginning to revive. Private consumption in Germany is forecast to increase by over 1% a year in 2014–17, and investment growth should average 3.5% a year.

... but loan book quality remains a prime concern

Some Eurozone banks have price-to-book ratios of less than one, indicating continued concern about loan book quality. The ECB's AQR, due to begin in early 2014, and the next round of stress testing, appears to have encouraged an early rise in the provisioning of NPLs. We now expect NPLs to reach 7.8% of total loans by the end of this year. High levels of provisions will continue into 2014, as banks get their houses in order before the ECB takes over responsibility for supervision in a year's time. But NPLs are projected to peak this year, before gradually falling to 6.8% in 2014 and then more sharply to 4.6% by 2017. In countries that have yet to emerge from recession, including Italy and Spain, the process will be slower. They are not expected to see a fall in NPLs until 2015.

Consumer credit forecast to pick up

Although overall credit conditions are still being tightened, consumer credit conditions eased in Q2 2013 for the first time since 2007. We have raised our forecast for consumer credit growth in light of an improved outlook for consumption. This follows stronger quarterly consumption growth than expected across the Eurozone in Q2 2013 of 0.1%, with the exception of the Netherlands. By contrast, residential mortgage lending is expected to fall 0.6% this year, continuing its decline, especially in Spain and Italy. It will start to pick up again in 2014, as the housing market revives in most Eurozone countries, supported by better credit conditions and a stronger labor market. The biggest falls will be in Spain, where the housing market has been hit particularly hard, but they will be partly offset by more buoyant conditions in Germany and to a lesser extent in France.

Operating income set to improve more rapidly from 2014

Total bank operating income should improve by 1% this year, and is set to rise by 7.1% in 2014, as banks put the worst of the provisioning behind them. This is mainly being driven by banks in Italy, Germany and France. They will also benefit from a growing deposit base. Deposits are forecast to increase by 3.2% this year and 3.6% in 2014. We then expect deposits to grow by 4.4% a year between 2015 and 2017, as interest rates slowly inch up in the medium term, attracting more savings. Rising deposits should contribute to increasing bank profitability in

most countries, with the exception of Cyprus, where the banking sector is still recovering from the effects of the 2012–13 crisis. Nevertheless, we now forecast a slightly slower increase in operating income than we had expected three months ago, reflecting our higher forecast for provisions against NPLs.

Profitability may be affected by other changes, too. Banks in some Eurozone countries may face increasing competition from non-traditional providers of banking services, such as fund managers looking for alternative investment classes, or crowd-sourced lending. For now, these are unlikely to threaten banks' core businesses, and they could be a benefit, especially if they take over some of the riskier lending. Insurers looking for new ways into bancassurance could also help to reduce lending risks through new underwriting or loan syndications.

Viewpoint

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The rapid approach of the AQR as part of Balance Sheet Assessment – the ECB's first major initiative in its new role as supervisor of the Eurozone's largest banks – is having a visible effect on the industry. Banks across the region are expecting the AQR to herald tougher and more consistent provisioning standards, with areas such as real estate loans and structured finance portfolios likely to come under particular scrutiny. Recent months have seen several Eurozone banks explicitly link increased impairment charges with the AQR's arrival.

> The AQR is more of an affirmation than a source of concern for some Eurozone banks. The strongest are increasingly keen to move from compliance-driven spending to growth-focused investment.

At the same time, it is becoming clear that the AQR is just the first step toward a new SSM. The ECB's balance sheet assessment is also expected to include reviews of risks and risk-weightings, followed by stress-testing of banks' core tier 1 solvency.

The ECB will soon announce which banks will be coming under its direct supervision. Of course, the new regime will mean different things for different banks. Some will be all too aware that the process is likely to end with a call for them to raise fresh capital. A number of banks have tapped public markets for equity in recent months, and it seems inevitable that others may need to fall back on state support.

In contrast, the AQR is more of an affirmation than a source of concern for some Eurozone banks. The strongest are increasingly keen to move from compliance-driven spending to growth-focused investment. Although regulation will remain a major feature of their environment, they are making increasing efforts to optimize their business models for expansion. The latest forecasts suggest that growth in banks' operating income will accelerate in 2014, as economic recovery and a steeper yield curve boost lending and net interest margins.

Looking further ahead, now that the German federal elections are over it will be interesting to see whether Angela Merkel's domestic political momentum will translate into a stronger push for a full Eurozone banking union.

Corporate lending

3.8%

Business investment is expected to pick up after contracting for seven consecutive quarters. As a result banks will lend €4,635b to businesses in 2014, 3.8% more than in 2013.

Customer credit

€4,851b

By 2017 personal lending is expected to rise to €4,851b easing consumer credit conditions for the first time since 2007.

NPLs

7.8%

NPLs will peak at 7.8% of total loans in 2013, before falling to 4.6% in 2017.

Insurance forecast

Pressure easing on life premiums as Eurozone emerges from recession

As the Eurozone is now emerging from recession, rising household incomes will drive a slow recovery in premiums. Average life premiums across the Eurozone are expected to stabilize this year, after falling almost 12% in 2012. They should pick up more firmly from 2014, as the Eurozone economy gradually recovers, increasing at an average rate of 2.7% a year between 2014 and 2017. However the pattern in individual countries is expected to differ substantially. Premium income is forecast to grow just 0.6% in Italy this year, as its economy lags behind the rest of the Eurozone and remains in recession until early 2014.

Longer-term challenges to growth will define the life insurance industry's future

Consumers will still have to face weak Eurozone growth and high unemployment for some time. The slow recovery will limit demand for life products. In addition, low interest rates and the regulatory challenges of Solvency II will put pressure on firms to develop new products. These could include the introduction of more flexible guarantees, greater emphasis on risk products, and increasing interest in alternative investment classes.

New opportunities will also emerge from a more rapidly aging population, which is likely to raise demand for innovative new savings and retirement products to mitigate longevity risk. These could include single-premium investments with a limited payout period, and insurers providing their own network of health services and retirement homes. It is estimated that the number of people aged 65 or over will increase by 8% between now and 2017. The fastest growth will be in France (13%) and the Netherlands (15%), with fewer opportunities in Germany (5%).

German non-life insurance premiums to grow 4% this year, ahead of the rest of Europe

General insurance business has also been affected by the recession, but there are some signs of improvement as economies begin to recover. We expect premium incomes to increase by 1.3% this year. The greatest gain will be in Germany, with 4% growth, offsetting further contraction in Italy, the Netherlands and Spain. From next year, premium income across the Eurozone is expected to grow just over 2.5% a year between 2014 and 2017, although rates will be very subdued compared with pre-financial crisis expansion of over 12% between 2002 and 2008. The troubled southern European economies are expected to see the weakest non-life premium income growth – just 1% in Italy on average over the next two years, and a 2% fall in Spain.

Difficult economic environment limits general insurance prospects in southern Europe

Rate increases will be difficult to obtain, with southern European motor lines hit particularly hard as the decline in car sales continues. New car registrations fell 20% last year in Italy, and are expected to drop a further 7% this year and 5% in 2014. At the same time, squeezed household budgets ensure that policyholders remain very price sensitive. Rate increases for both motor and property insurance may be easier to achieve in the more buoyant core European markets, particularly in Germany, where unemployment is now at a post-unification low of 5.3%. Underwriting profitability is expected to remain flat in the near term, as the weak economy limits the ability to push through rate increases. There will be better opportunities for rate rises as the Eurozone economy returns to growth, especially from 2014 onwards.

The Solvency II delay has helped recovery

Some insurers have benefited from temporary regulatory support, including less onerous discount rates and accounting rules for government bonds. This has happened in Spain and Italy, and has helped to maintain firm capitalization levels in both nations. The Netherlands also benefited for a time, but is now pressing ahead with Solvency II requirements. Solvency II is not expected to be introduced until 2016 at the earliest, but firms will have to ensure they have sufficient capital in place, limiting the scope for business expansion.

Rapidly rising interest rates would pose a significant threat to insurers

A slow but steady return to growth should result in a gentle upward shift in the yield curve, helping insurers to recover margins. Although interest rates will stay low, we expect the ECB to start raising rates in H2 2017 from

the current 50 basis points (bp), to 100 bp by the end of 2017. For life insurers particularly, more rapid interest rate rises could hit profits. Product withdrawals if customers switch to savings products with higher returns would result in capital losses on low-yielding assets needing to be sold before redemption.

We expect inflation to remain low for the next few years, under 1.5% in 2014–17. This should encourage more product innovation as insurers are able to focus on technical risks rather than financial ones, enabling them to achieve higher margins. As well as new products for the growing retirement and care provision market, the current bancassurance model in some countries is also likely to change. Solvency II capital requirements may force French banks, for example, to sell their insurance subsidiaries, or banking partners elsewhere to end joint ventures. The need for continuing bank deleveraging in the face of higher capital requirements may provide opportunities for insurers.

Viewpoint

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The Eurozone economy is predicted to see a slow recovery in 2014, but the possibility of higher interest rates remains distant.

> Growing longevity risks mean that low interest rates are putting balance sheets under ever-greater pressure. Another two years of very low rates will pose an existential threat to some European insurers.

Forecasts suggest that the ECB may keep rates at their current levels until 2017. This represents an increasingly serious challenge to Europe's life industry. Growing longevity risks mean that low interest rates are putting balance sheets under ever-greater pressure. Another two years of very low rates will pose an existential threat to some European insurers.

In this environment, even the strongest firms are being forced to accelerate changes to their business models. When European life insurance premiums do recover, they will not flow into annuities or other traditional guarantee products. Insurers will focus on unit-linked products that transfer more investment risk to policyholders, or contracts that invest lump sums for a defined period, while providing some life and illness protection. Insurers are also encouraging policyholders to accept limited guarantee periods, renegotiated every few years. This helps firms to manage their risks, and gives investors the prospect of better returns when interest rates recover.

Unfortunately, re-engineering balance sheets will take time. Life insurance contracts are measured in decades, and many small firms are too busy with short-term challenges to focus on long-term innovation. Some struggling firms might be able to sell closed books of business to stronger rivals, but most of Europe's larger firms would currently prefer to deploy spare capital in southeastern Europe, Asia or Latin America.

Turning to non-life insurance, it is striking that premiums are stronger in Germany than elsewhere in the Eurozone. This is partly about Germany's economic strength, but insurers are increasing rates as a result of the 2013 floods. European non-life cycles are often synchronized, so hopefully other core Eurozone markets will emulate this improvement next year.

The delay of Solvency II, and the fact that only a few European insurers are of global systemic importance, mean that regulation has slipped down the agenda of many insurers. Even so, insurers should be aware that some local regulators are considering placing firms of national importance under closer scrutiny.

Aging population

8%

By 2017 the number of people aged over 65 in the Eurozone will have increased by 8%, creating demand for innovative new savings and retirement products.

Non-life insurance

2.5%

Non-life premium income is expected to grow 2.5% per year between 2014 and 2017.

Regulation

2016

Solvency II is not expected to be introduced until 2016 at the earliest, limiting the scope for business expansion among insurers.

Asset management forecast

Signs that European funds are attracting flows at the expense of emerging markets

Assets in pan-Eurozone funds are forecast to grow by 6.1% this year, to €4,817b. This follows a 12% expansion in 2012, reflecting higher asset prices and a gradual improvement in confidence. A lack of potential for valuation adjustment will limit the scope for further gains, reducing average AUM growth to 3.9% between 2014 and 2017, well below the historic average of 6.7%. AUMs grew just 2% in H1 2013, held back in Q2, partly by investor concerns about when and how quickly the US Federal Reserve would taper its bond purchases. But European funds have benefited from a switch away from liquidity-sensitive emerging markets assets in response to the gradual withdrawal of liquidity, and are expected to continue to do so. Our forecast assumes that the slower pace of quantitative easing in the US from Q3 onwards is already anticipated in prices, and that there are no other major concerns, such as an escalation of the crisis in Syria.

Equity funds are set to outperform other asset classes

Relatively muted reactions to these recent events indicate that investors' risk appetites are more firmly entrenched than in 2012. Assuming this continues, we expect equity and multi-asset funds to see the largest AUM gains among asset classes in 2013 and 2014, as investors are prepared to take on more risk for higher returns. AUMs in pan-Eurozone equity funds are forecast to reach €2,079b by 2017, up from €1,349b last year, an increase of over 50%. By 2017, 37% of Eurozone assets will be invested in equities, up from 30% in 2012. Although multi-asset funds are a small proportion of the total market at present, they are expected to grow rapidly, by over 70%, reaching €645b by 2017, up from €383b at the end of 2012. They will benefit from the trend among smaller pension funds and insurance companies to outsource asset allocation decisions by investing in externally run funds. But as the population ages, increasing demand for products with guaranteed returns may alter the types of equity funds marketed.

Safe-haven investments will lose market share to riskier assets

Conversely, AUMs in bond funds will see little expansion as the need for safe havens falls. They will grow less than 12% between 2012 and 2017, reaching €1,052b. By 2017, AUMs in bonds will account for 26.7% of total AUMs, down from 29.6% at the end of last year. Peripheral markets, such as Italy and Spain, will fare better than the core countries, attracting investors through higher yields to compensate for some residual debt-restructuring risk. Funds invested in Eurozone-focused money market funds are expected to decline from €1,003b last year, to €827b by 2017. This will be driven by the core markets of France, Germany and the Netherlands, where the shift in risk perception is likely to be greatest. Elsewhere in the Eurozone, especially in Spain and Italy, domestic consumers will be more cautious in the face of depressed labor markets. Demand for money market funds in these regions is expected to remain high for longer. Enhanced funds, which typically take on more credit risk, are gaining market share at the expense of standard money market products. AUMs in enhanced funds have increased from a 2.6% share in Q1 2012, to 3.4% in Q2 2013. This reflects rising appetite for higher returns.

Hedge funds set to attract new investments from 2014

Outflows from pan-European hedge funds should slow as systemic concerns recede, including the survival of the Eurozone. The strong performance of hedge funds so far this year should attract new investors, with some buying into Eurozone-focused funds. As the risk environment gradually returns to normal and individual asset performance begins to diversify again, hedge funds will have a broader range of opportunities to make returns from stock-specific investment. We expect AUMs in hedge funds to reach €36b by 2017 – a return to 2011 levels – but not regaining their record high of €46b in 2007.

Alternative investments should also see growing interest

Alternative investments are growing in popularity, as many have low correlations with mainstream investments. These funds include investments in infrastructure projects, corporate debt and property. Infrastructure funds are starting from a low base, so even if they expand rapidly they will not be a

significant proportion of AUMs by 2017. After several tough years for the property sector, we forecast a 2% increase in property AUMs this year. The pace of expansion should steadily build over the next few years to reach 4.4% annual growth by 2017, with total AUMs of €119b, compared with €102b in 2012.

German property market funds particularly may benefit from this trend. Having fallen 8% from their peak in early 2010, the assets invested in German commercial property are starting to rise again. We expect growth of 3% this year and 5% in 2014. Property funds represent a sizeable share of the German industry, accounting for 16% of assets, compared with just 2% at the pan-Eurozone level. In contrast, the Spanish commercial property sector, in tandem with its economy, is still falling, and we expect a further decline in AUM this year before conditions start to improve in 2014.

Viewpoint

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The prospect of economic recovery and the growing value of funds under management are boosting the confidence of asset managers in the Eurozone. The urgent need for Europeans to save more during their working lifetimes – illustrated by the increasing strain on public sector pension schemes – underlines the vital role the sector has to play over the coming decades.

The effects of increasing optimism are also being felt on the operational side of asset management. Many firms are shifting from a focus on pure cost control to a more value-based view that supports balanced investment.

Even though this is an encouraging picture, it seems unlikely that European equities will offer asset managers an easy route to growth. Despite recent improvements in the Eurozone's markets, the region's economic fundamentals have not changed materially. So while small caps may benefit from the economic recovery, this will have a limited effect on the wider market. Retirees' investment needs are also unlikely to provide much long-term support for equities. Current retirees need steady income and capital protection, while asset managers will struggle to deliver predictable outcomes for tomorrow's pensioners by investing in equities.

Instead, asset managers will continue to broaden their investment horizons. With real estate increasingly considered a mainstream asset class, many firms are keen to explore setting up funds as lending platforms. Infrastructure assets are one area of interest, owing to their predictable cash flows. Another priority is lending to the Eurozone's investment-starved SMEs – something that promises much better returns than low-yielding corporate bonds.

The effects of increasing optimism are also being felt on the operational side of asset management. Many firms are shifting from a focus on pure cost control to a more value-based view that supports balanced investment. Unfortunately there is no obvious letup in regulatory spending. If anything, national regulators are competing with each other to go beyond pan-European requirements. Eurozone firms are also seeing the first signs that they may be affected by Asian regulation, such as rules favoring onshore funds. Individual firms need to respond by identifying the opportunities that regulation brings, as well as the obligations.

Bonds

12%

AUMs in bond funds are expected to grow less than 12% between 2012 and 2017 as the need for safe havens falls.

Hedge Funds

€36b

Hedge fund AUMs are expected to reach €36b by 2017, returning to 2011 levels, but not regaining their record high of €46b in 2007.

Equities

50%

Equity fund AUMs will reach €2,079 by 2017, an increase of over 50% from 2012.

Highlights

France

- Banking sector's performance to be better than expected in 2013
- Gentle revival for insurance, with life premiums expected to rise in 2014
- Money market fund popularity starting to decline

Germany

- Banks are benefiting from improvements in financial markets
- Growing economy will support insurance industry
- German property market is heating up

Italy

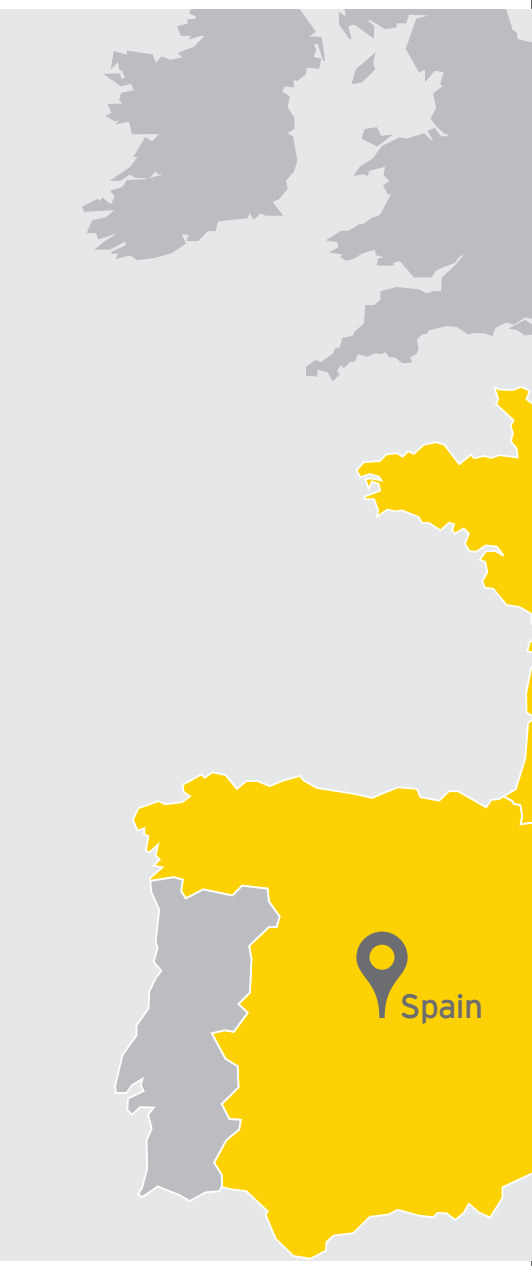
- Rising NPLs will hold back bank profits in 2013
- Insurance industry underperforms compared with Eurozone average
- Italian AUMs will benefit from increased optimism

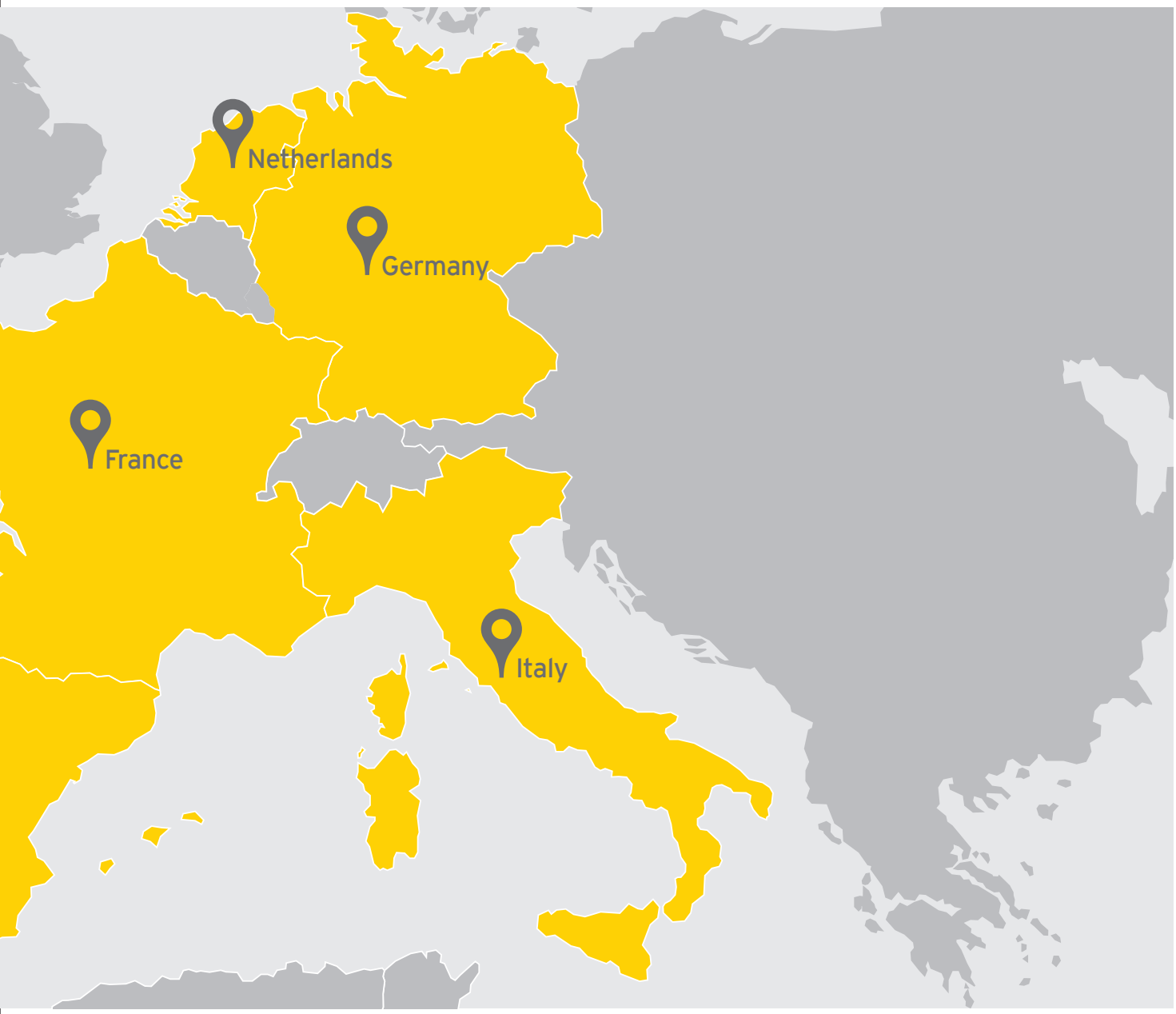
Netherlands

- Historical data points to stronger-than-expected growth in the banking sector
- Recession hits non-life insurance business
- Netherlands-focused assets expected to stagnate

Spain

- Improving economy will bring some relief to the banking sector
- Mixed outlook for the insurance industry
- Spanish funds are attracting investors away from safe havens




Netherlands
Germany
France
Italy

Key issues

France

Banking sector's performance to be better than expected in 2013

The outlook has improved, and there is evidence that mortgage lending and loans to non-financial corporations are picking up again. We expect them to grow by 1% and 0.6% respectively this year. Total assets are forecast to increase by 4.7% in 2013, helped by improving financial markets, as the economy returns to quarterly growth of 0.5% in Q2 2013. Total operating income will be hit this year by the need for balance sheet restructuring and high provisions, falling to just €74b, from €138b last year. But it will start to increase again from next year, rising to €103b by 2017.

A gentle revival for insurance

Competing bank savings products took market share from life insurers last year, but single premium business should revive now that many savers hold the maximum allowed in equivalent banking products. We expect life premiums to rise by 0.8% in 2013 and 3.8% in 2014. Non-life business also declined last year, albeit less than life business, as new car registrations fell 14% and house prices slipped by 0.6%. Premiums should now start to rise moderately as the economy enters a period of sustained but slow growth. We therefore forecast average non-life premium growth of just 1.7% over the next two years.

Money market fund popularity is starting to decline

Although pan-European funds should see a rise in AUMs in 2013, we expect AUMs in French-focused funds to decline in 2013, after a 5% rise last year. This will be driven mainly by outflows from money market funds, which account for half of all French AUMs. We expect improving investor risk appetite to result in outflows from money market and bond funds and a 90bp rise in 10-year bond yields to reduce the capital value of bond funds. Double-digit rises in equity AUM in both 2013 and 2014 will be insufficient to keep total AUM growing.

Operating income

Total operating income is expected to fall to €74b, from €138b last year. But it will start to increase from 2014 rising to €103b by 2017.

Germany

Banks benefiting from improvements in financial markets

We expect operating income to grow by 7.3% this year due to the rise in financial markets and higher interest rates on loans. Nevertheless, unexpectedly poor data in H1 suggests that total loans will fall by just under 1%, to €3,2110b in 2013. Loan growth will pick up from next year, driven by acceleration in economic activity and a decline in NPLs. The proportion of bad loans is forecast to peak at 3.2% this year, before steadily declining to 2.8% by 2017.

Growing economy will support insurance industry

We expect non-life premium growth to average over 3% a year for the next five years, exceeding the Eurozone average of a little over 2%. German premiums will benefit from a stronger domestic economy, faster house price inflation in Germany than the Eurozone average, and stronger profits growth. Profits this year will be affected by summer flooding and hailstorms, which the German association of insurance companies' estimates will cost around €2b in claims payouts to households and businesses. Life premiums are expected to recover this year, with growth of 1.1%. This is lower than the Eurozone average of 1.3%, but the decline last year was also less marked. From 2015, we expect life premium growth to exceed the Eurozone average, as the German economy rebounds more strongly.

German property market is heating up

AUM growth in German-focused funds is expected to lag behind that of pan-European funds in 2013, as investors search for value in peripheral European markets rather than the core. AUM growth in German bonds, considered a safe haven, slowed sharply in the first half of this year. We expect negligible AUM growth in 2013, following a 16% rise last year. As the economy improves, German bond AUMs are forecast to fall by 5% in 2014. Equity AUM growth is expected to be above bond AUMs, at 7.7%, but less than the Eurozone average of over 9%, as investors begin to seek riskier markets once more.

Property funds should see more interest again, after three years of declining AUMs. Trends so far this year suggest growth has begun already, but we expect it to gather pace as the economy continues to lead the Eurozone recovery and investors look for an alternative to bonds.

Profits

€2b

2013 profits will be affected by summer flooding and hailstorms with an estimated €2b in claims pay-outs to households and businesses.

Italy

Rising NPLs will hold back profits this year

The ECB's AQR appears to have triggered the early recognition of NPLs by Italian banks. Bad loans were higher than expected in H1 2013, but the corollary is that balance sheets should recover more quickly. We forecast NPLs to reach 11.6% of total loans this year, but then they should steadily fall back to 6.8% by 2017. Bank profitability will be dented in the short term. Total assets and loans have not fallen as far as we had expected in the first half of this year, indicating that a faster growth path is possible. We forecast total loans to expand from €1,941b this year, to reach €2,282b by 2017.

Insurance industry underperforms compared with Eurozone average

Both life and non-life premiums fell sharply in 2012, as the economy contracted by 2.4%. This was the second consecutive year of marked contraction for life premiums. As we do not expect the economy to start growing again until early 2014, the Italian insurance industry will underperform the Eurozone average, with non-life premium growth averaging just 0.9% in 2013 and life premium growth just 1.5% in 2014.

Italian AUMs to benefit from increased optimism

With growth of 11% projected next year, AUMs in Italian-focused funds are expected to grow more quickly than those of pan-European funds, as investors search for value in the Eurozone periphery now that the Eurozone's survival seems more likely. Multi-asset funds, equity funds and fund of funds are likely to see their assets grow more quickly during 2013 and 2014 than more defensive bond and money market funds. The pace of bond AUM growth is expected to slow sharply from the 20% seen in 2012, up just over 3% this year. Nevertheless, it should remain positive as investors continue to be attracted to the additional yield offered by Italian government bonds compared with those of Germany and France.

AUMs

11%

With growth of 11% in 2014, AUMs in Italian-focused funds are expected to grow more quickly than those of pan-European funds.

Netherlands

Historical data points to stronger-than-expected growth in the banking sector

The Dutch banking sector performed strongly in the first half of this year, even though the outlook for the economy worsened. We expect total loans to reach €1,405b this year, an increase of 2.8% from 2012, mostly in the business sector. NPLs are also very low by Eurozone standards, and are expected to have already peaked when they reached 3.1% last year. They are forecast to fall to 2.7% this year, declining steadily to just 1.4% by 2017. At the same time, balance sheet deleveraging will continue, with the loan-to-deposit ratio falling from 124 last year, to 107 by 2017.

Recession hits non-life insurance business

Insurance premiums are estimated to have fallen by over 6% last year in the Netherlands. The environment will remain difficult, as the economy is expected to grow only 0.4% next year. Unemployment is not forecast to start falling until the second half of 2014, and house prices continue to decline. These conditions will constrain consumer demand. Consequently, we expect non-life premiums to fall 3.2% this year, before stabilizing in 2014. By contrast life premiums fell far less in the Netherlands last year than the Eurozone average. We expect this relative strength to be maintained over the next two years, with premiums growing almost 5% a year.

Netherlands-focused assets expected to stagnate

Total AUMs in Netherlands-focused funds grew more than 6% in 2012. We expect them to fall back a little this year, as the country is seen as a low-yielding core market, offering neither the returns nor the risks that will attract investors in the current environment. Although equity AUMs are expected to rise, we do not believe it will be sufficient to generate a rise in total AUMs due to the weak nature of the recovery expected over the coming years. From 2014 onwards, we forecast restrained grow of a little over 3% a year in Dutch AUMs, mainly in equities.

Life premiums

5%

Life premiums fell far less in the Netherlands last year than the Eurozone average. We expect this relative strength to be maintained over the next two years, with premiums growing almost 5% a year.

Spain

Improving economy will bring some relief to the banking sector

The Spanish economy looks set to return to growth in the second half of 2013, following two years in recession. Progress will be slow, but it will help to draw a line under the decline of the banking sector. Spain still has to manage the completion of the on-going restructuring process in its financial sector. The unwinding of the pre-crisis housing bubble will remain a drag on residential mortgage loan growth until 2015, and NPLs are not expected to peak until next year.

Mixed outlook for the insurance industry

Spain suffered the largest Eurozone decline in non-life premiums in 2012, with an estimated fall of almost 10%, well below the Eurozone average of a 6% drop. This weakness is likely to continue for the next two years as tough business conditions persist. House prices continue to fall, even though they are already 30% lower than their peak in Q1 2008.

Spanish life businesses faced the toughest market conditions outside France last year, with premiums down an estimated 16%, as employment fell 4.5% and nominal household income shrank by 2.7%. However, the environment should start to improve, as we believe the fall in household incomes is beginning to level out. This should result in premium growth of around 2.7% in each of the next two years.

Spanish funds attracting investors away from safe havens

We expect AUMs in Spanish-focused funds to comfortably outpace growth in assets managed by pan-European funds, as investors look for value in peripheral European markets. Both bond and equity funds should see strong AUM growth in 2013 and 2014. AUMs in Spanish bond funds fell 10% last year, but have started to rise since, as investors search for higher yields, and should grow by 12.8% this year. Equity AUMs are forecast to rise by 9%.

NPLs

12.5%

NPLs are not expected to peak until 2014, reaching 12.5% of total loans.

Appendix

Introduction

Table 1
Forecast for the Eurozone economy (annual percentage changes unless specified)

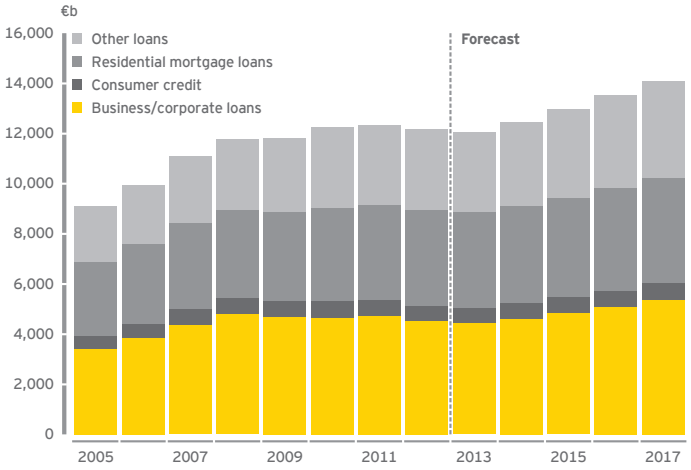
	2012	2013	2014	2015	2016	2017
GDP	-0.5	-0.5	0.9	1.4	1.6	1.6
Consumer prices	2.5	1.6	1.6	1.4	1.4	1.4
Unemployment rate (level)	11.4	12.3	12.7	12.5	12.1	11.7
Government budget (% of GDP)	-3.7	-2.8	-2.4	-2.0	-1.6	-1.3
Government debt (% of GDP)	91.3	95.2	97.2	98.5	99.1	99.0
ECB main refinancing rate (%)	0.9	0.6	0.5	0.5	0.5	0.7
Exchange rate ($ per €)	1.28	1.31	1.24	1.19	1.18	1.18

Source: Oxford Economics.

Banking

Chart 1

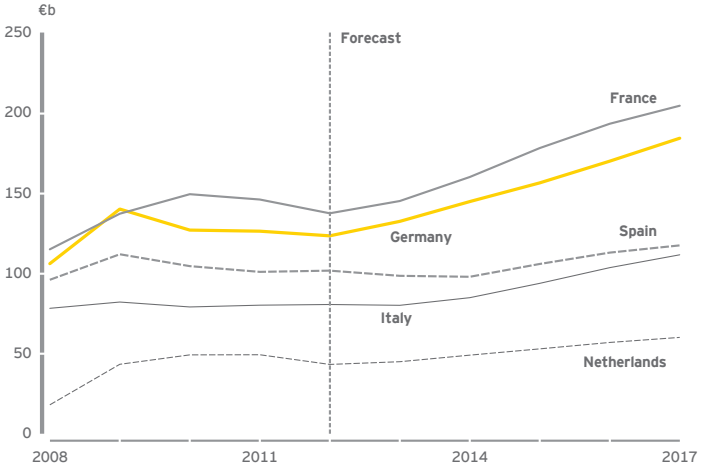
Total loans (excl. MFIs) of Eurozone banks



Source: Oxford Economics; ECB.

Chart 2

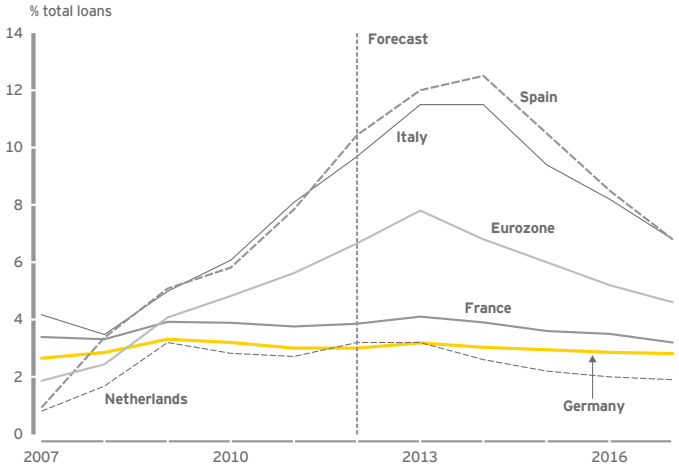
Total operating income of Eurozone banks



Source: Oxford Economics; ECB.

Chart 3

Eurozone non-performing bank loans



Source: Oxford Economics; ECB; IMF; national central banks.

Table 2
Forecast for the Eurozone economy

	2012	2013	2014	2015	2016	2017
Macro variables						
Nominal GDP growth (%)	0.7	1.1	2.3	2.8	3.0	3.1
Real GDP growth (%)	-0.5	-0.5	0.9	1.4	1.6	1.6
Nominal consumption growth (%)	0.7	0.9	2.1	2.5	2.8	3.0
Nominal personal disposable income growth (%)	0.2	0.7	1.7	2.4	2.7	2.8
Nominal private investment growth (%)	-3.1	-3.0	2.9	4.1	4.2	4.1
Financial variables						
3-month Euribor rate (%)	0.6	0.2	0.3	0.3	0.3	0.6
10-year government bond yield (%, Eurozone average)	3.9	3.1	3.2	3.4	3.7	4.1

Source: Oxford Economics.

Table 3
Eurozone: banking

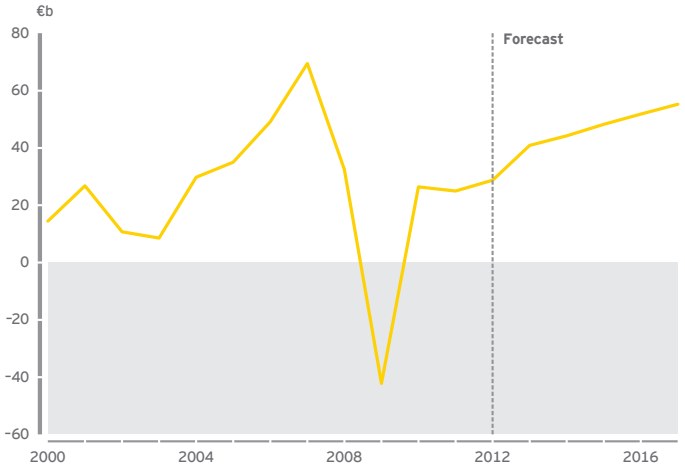
	2012	2013	2014	2015	2016	2017
Total assets (€b)	32,694	32,636	33,219	34,152	35,167	36,307
Total loans (€b)	12,198	12,052	12,440	12,975	13,538	14,084
Business/corporate loans (€b)	4,541	4,464	4,635	4,870	5,115	5,366
Consumer credit (€b)	604	598	608	625	644	663
Residential mortgage loans (€b)	3,831	3,807	3,865	3,963	4,071	4,188
Non-performing loans as % of total gross loans	6.7	7.8	6.8	6.0	5.2	4.6
Deposits (% year)	0.9	3.2	3.6	4.4	4.4	4.4
Loans/deposits (%)	110	105	105	105	105	104
Total operating income (€b)	599	605	647	709	769	818

Source: ECB; Oxford Economics.

Insurance

Chart 4

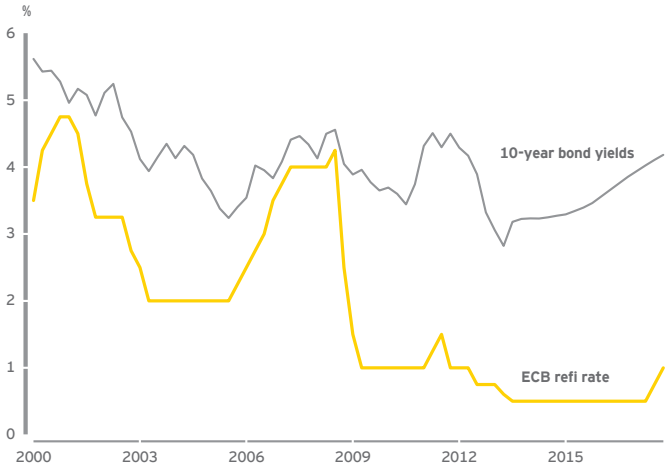
Eurozone insurance industry profits



Source: Oxford Economics; Datastream.

Chart 6

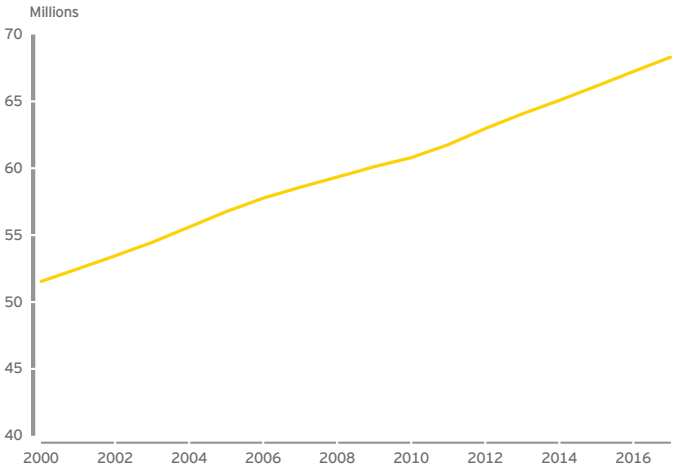
Eurozone interest rates



Source: Oxford Economics; Haver Analytics.

Chart 5

Eurozone population aged 65+



Source: Oxford Economics; Haver Analytics.

Table 4
Forecast for the Eurozone economy

	2012	2013	2014	2015	2016	2017
Macro variables						
Nominal GDP growth (%)	0.7	1.1	2.3	2.8	3.0	3.1
Real GDP growth (%)	-0.5	-0.5	0.9	1.4	1.6	1.6
CPI (% yoy)	2.5	1.6	1.6	1.4	1.4	1.4
Labour market						
Total employment (thousands)	146,197	144,917	144,732	145,111	145,551	146,020
Employment in manufacturing (thousands)	21,578	21,174	20,952	20,850	20,783	20,701
Employment in non-manufacturing (thousands)	124,619	123,744	123,780	124,261	124,769	125,319
Unemployment (thousands)	18,069	19,471	20,012	19,688	19,109	18,503
Demographics						
Population (thousands)	333,116	333,539	333,979	334,205	334,315	334,432
Population of working age (thousands)	219,061	218,371	217,846	217,164	216,398	215,638
Population, 65+ (thousands)	62,969	64,061	65,075	66,135	67,221	68,307
Consumers						
Nominal personal disposable income (% yoy)	0.2	0.7	1.7	2.4	2.7	2.8
Gross household financial wealth (€b)	16,326	16,912	17,653	18,514	19,312	20,073
Total household borrowings (€b)	6,783	6,744	6,751	6,858	7,017	7,211
Motoring						
Car registrations (thousands)*	7,032	6,703	6,722	6,817	6,944	7,056
Housing market						
House prices (% yoy)	-1.7	-1.1	1.1	2.0	2.4	2.6
Corporate sector						
Company profits (€b)	2,057	2,097	2,150	2,225	2,306	2,388
Financial variables						
3-month Euribor rate (%)	0.6	0.2	0.3	0.3	0.3	0.6
10-year government bond yields (%)	3.9	3.1	3.2	3.4	3.7	4.1
Equity market (% yoy)	11.7	10.8	8.6	8.9	7.8	6.0

Source: Oxford Economics.

*Car registrations and company profits refer to the sum of Germany, France, Italy and Spain.

Table 5
Eurozone: insurance

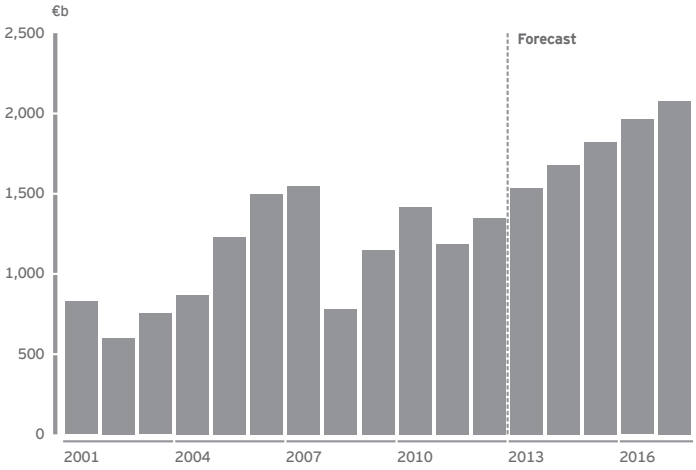
	2012	2013	2014	2015	2016	2017
Life gross premium (US$b)	561	569	586	600	615	632
% year	*-11.6*	*1.3*	*3.0*	*2.4*	*2.6*	*2.8*
Life gross claims payments (US$b)	296	286	303	320	337	355
Life claims ratio (%)	*53*	*50*	*52*	*53*	*55*	*56*
Non-life gross premium (US$b)	385	390	400	409	420	432
% year	*-5.9*	*1.3*	*2.5*	*2.4*	*2.6*	*2.7*
Non-life gross claims payments (US$b)	245	249	256	261	267	274
Non-life claims ratio (%)	*64*	*64*	*64*	*64*	*64*	*63*
Profits (€b)	28.8	40.9	44.2	48.3	51.8	55.3

Source: Oxford Economics.

Asset management

Chart 7

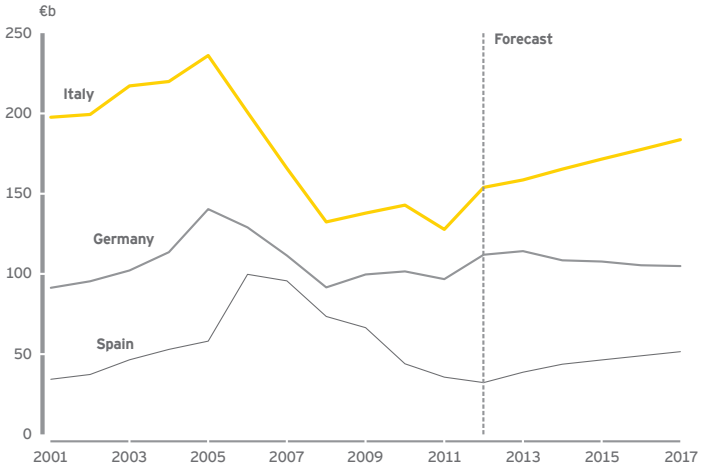
Equity fund assets under management



Source: Oxford Economics; LIPPER.

Chart 9

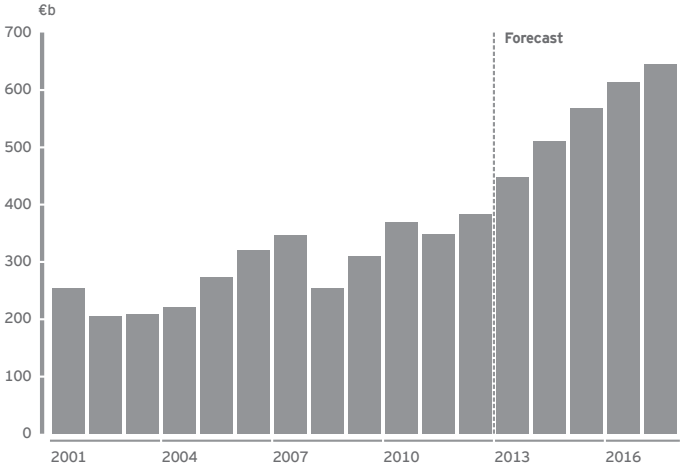
Bond fund assets under management



Source: Oxford Economics; LIPPER.

Chart 8

Mixed fund assets under management



Source: Oxford Economics; LIPPER.

Table 6
Forecast for the Eurozone economy

	2012	2013	2014	2015	2016	2017
Macro variables						
Nominal GDP growth (%)	0.7	1.1	2.3	2.8	3.0	3.1
Real GDP growth (%)	-0.5	-0.5	0.9	1.4	1.6	1.6
CPI (%)	2.5	1.6	1.6	1.4	1.4	1.4
Financial variables						
3-month Euribor rate (%)	0.6	0.2	0.3	0.3	0.3	0.6
10-year government bond yield (%, Eurozone average)	3.9	3.1	3.2	3.4	3.7	4.1
DJ Euro Stoxx 50 equity price Index	2,543	2,817	3,058	3,330	3,589	3,803
Households						
Wealth (€b)	16,326	16,912	17,653	18,514	19,312	20,073
Savings flow (€b)	792	789	784	797	812	827
Pensions holdings (€b)	5,742	6,324	6,525	6,769	7,060	7,334

Source: Oxford Economics.

Table 7
Eurozone: asset management

	2012	2013	2014	2015	2016	2017
Total assets under management (€b)*	4,542	4,817	5,022	5,236	5,432	5,623
% year	*11.7*	*6.1*	*4.3*	*4.3*	*3.7*	3.5
Bonds (€b)	1,344	1,425	1,458	1,479	1,484	1,502
Equity (€b)	1,349	1,538	1,678	1,825	1,962	2,079
Fund of funds (€b)	328	348	368	386	402	416
Hedge (€b)	32	31	32	33	34	36
Mixed (€b)	383	448	511	568	614	645
Money market (€b)	1,003	923	869	836	823	827
Property (€b)	102	104	106	109	114	119

Source: Oxford Economics; Lipper FMI.

*UCITS and non-UCITS assets.

France

Table 8
France: banking

	2012	2013	2014	2015	2016	2017
Total assets (€b)	8,076	8,459	8,664	8,912	9,180	9,470
Total loans (€b)	2,264	2,299	2,343	2,429	2,520	2,610
Business/corporate loans (€b)	815	820	842	873	907	943
Consumer credit (€b)	149	147	151	155	160	165
Residential mortgage loans (€b)	870	879	899	926	958	988
Non-performing loans as % of total gross loans	3.9	4.1	3.9	3.6	3.5	3.2
Deposits (% year)	3.0	3.8	2.5	4.3	4.0	3.8
Loans/deposits (%)	115	113	112	111	111	111
Total operating income (€b)	138	145	160	178	194	205

Source: ECB; Oxford Economics.

Table 9
France: insurance

	2012	2013	2014	2015	2016	2017
Life gross premium (US$b)	157	158	164	168	172	177
% year	*-15.0*	*0.8*	*3.8*	*2.4*	*2.6*	*2.8*
Life gross claims payments (US$b)	46	56	67	79	91	104
Life claims ratio (%)	*29*	*35*	*41*	*47*	*53*	*59*
Non-life gross premium (US$b)	99	101	102	105	107	110
% year	*-4.0*	*1.7*	*1.7*	*2.3*	*2.3*	*2.3*
Non-life gross claims payments (US$b)	65	66	67	69	70	72
Non-life claims ratio (%)	*65*	*65*	*65*	*65*	*65*	*65*
Profits (€b)	4.6	5.7	6.1	6.6	7.0	7.3

Source: Oxford Economics.

Table 10
France: asset management

	2012	2013	2014	2015	2016	2017
Total assets under management (€b)*	643	615	605	612	621	633
% year	*5.4*	*-4.4*	*-1.6*	*1.1*	*1.6*	*1.8*
Bonds (€b)	72	67	64	64	63	62
Equity (€b)	123	140	154	170	183	191
Fund of funds (€b)	86	84	87	91	93	95
Hedge (€b)	0.6	0.5	0.4	0.4	0.4	0.4
Mixed (€b)	30	32	34	35	36	36
Money market (€b)	332	292	266	252	246	249
Property (€b)	-	-	-	-	-	-

Source: Oxford Economics; Lipper FMI.

*UCITS and non-UCITS assets.

Germany

Table 11
Germany: banking

	2012	2013	2014	2015	2016	2017
Total assets (€b)	8,315	8,218	8,427	8,647	8,864	9,097
Total loans (€b)	3,239	3,210	3,403	3,592	3,768	3,927
Business/corporate loans (€b)	1,378	1,402	1,477	1,571	1,659	1,740
Consumer credit (€b)	225	226	233	242	251	261
Residential mortgage loans (€b)	820	828	843	867	892	917
Non-performing loans as % of total gross loans	3.0	3.2	3.0	2.9	2.9	2.8
Deposits (% year)	1.7	3.0	2.5	2.8	3.0	3.3
Loans/deposits (%)	97	94	97	99	101	102
Total operating income (€b)	124	133	145	157	170	185

Source: ECB; Oxford Economics.

Table 12
Germany: insurance

	2012	2013	2014	2015	2016	2017
Life gross premium (US$b)	109	110	112	115	119	122
% year	*-6.9*	*1.1*	*2.1*	*2.8*	*2.8*	*2.8*
Life gross claims payments (US$b)	106	103	101	99	98	96
Life claims ratio (%)	*98*	*94*	*90*	*86*	*82*	*78*
Non-life gross premium (US$b)	133	138	144	149	153	158
% year	*-4.4*	*4.0*	*4.5*	*3.0*	*3.0*	*3.0*
Non-life gross claims payments (US$b)	120	120	121	119	118	116
Non-life claims ratio (%)	*90*	*87*	*84*	*80*	*77*	*73*
Profits (€b)	10.0	12.9	10.4	9.8	10.0	10.5

Source: Oxford Economics.

Table 13
Germany: asset management

	2012	2013	2014	2015	2016	2017
Total assets under management (€b)*	499	532	551	574	598	624
% year	*6.4*	*6.7*	*3.5*	*4.3*	*4.2*	*4.4*
Bonds (€b)	112	114	108	108	105	105
Equity (€b)	130	143	154	164	177	192
Fund of funds (€b)	62	69	70	72	74	77
Hedge (€b)	0.9	1.0	1.0	1.0	1.1	1.1
Mixed (€b)	88	99	109	118	125	130
Money market (€b)	25	22	20	19	18	18
Property (€b)	82	84	88	92	97	102

Source: Oxford Economics; Lipper FMI.

*UCITS and non-UCITS assets.

Italy

Table 14
Italy: banking

	2012	2013	2014	2015	2016	2017
Total assets (€b)	4,220	4,115	4,175	4,301	4,465	4,630
Total loans (€b)	1,990	1,941	2,002	2,085	2,189	2,282
Business/corporate loans (€b)	865	827	859	901	956	1,010
Consumer credit (€b)	60	60	60	62	64	66
Residential mortgage loans (€b)	366	363	370	381	392	403
Non-performing loans as % of total gross loans	9.7	11.5	11.5	9.4	8.2	6.8
Deposits (% year)	7.9	5.0	6.0	6.5	6.5	6.5
Loans/deposits (%)	132	122	119	116	115	112
Total operating income (€b)	81	80	85	94	104	112

Source: ECB; Oxford Economics.

Table 15
Italy: insurance

	2012	2013	2014	2015	2016	2017
Life gross premium (US$b)	93	94	96	98	101	104
% year	*-11.2*	*0.6*	*2.4*	*2.2*	*2.6*	*2.7*
Life gross claims payments (US$b)	39	30	32	33	35	36
Life claims ratio (%)	*41*	*32*	*33*	*34*	*35*	*35*
Non-life gross premium (US$b)	47	47	48	49	50	51
% year	*-8.6*	*-0.2*	*1.9*	*1.6*	*2.4*	*2.8*
Non-life gross claims payments (US$b)	10	12	16	19	22	26
Non-life claims ratio (%)	*21*	*26*	*32*	*38*	*44*	*50*
Profits (€b)	0.5	0.8	1.2	1.5	1.8	2.0

Source: Oxford Economics.

Table 16
Italy: asset management

	2012	2013	2014	2015	2016	2017
Total assets under management (€b)*	328	354	383	410	432	449
% year	*6.2*	*8.0*	*8.0*	*7.1*	*5.3*	*4.0*
Bonds (€b)	154	159	165	172	178	184
Equity (€b)	51	54	60	66	71	75
Fund of funds (€b)	36	40	43	46	48	50
Hedge (€b)	0.7	0.5	0.5	0.5	0.5	0.5
Mixed (€b)	56	67	78	88	96	100
Money market (€b)	30	33	36	38	39	40
Property (€b)	-	-	-	-	-	-

Source: Oxford Economics; Lipper FMI.

*UCITS and non-UCITS assets.

Netherlands

Table 17
Netherlands: banking

	2012	2013	2014	2015	2016	2017
Total assets (€b)	2,493	2,535	2,569	2,658	2,751	2,848
Total loans (€b)	1,124	1,155	1,173	1,214	1,260	1,305
Business/corporate loans (€b)	632	634	651	675	701	727
Consumer credit (€b)	27	26	26	27	28	29
Residential mortgage loans (€b)	390	391	400	411	422	435
Non-performing loans as % of total gross loans	3.2	3.2	2.6	2.2	2.0	1.9
Deposits (% year)	4.2	6.5	6.0	6.0	6.0	6.0
Loans/deposits (%)	124	120	115	112	110	107
Total operating income (€b)	43	45	49	53	57	60

Source: ECB; Oxford Economics.

Table 18
Netherlands: insurance

	2012	2013	2014	2015	2016	2017
Life gross premium (US$b)	29	31	32	33	33	34
% year	*-3.7*	*5.1*	*4.7*	*2.2*	*2.3*	*2.6*
Life gross claims payments (US$b)	31	23	24	23	23	23
Life claims ratio (%)	*106*	*76*	*74*	*72*	*70*	*68*
Non-life gross premium (US$b)	26	25	25	25	26	27
% year	*-9.4*	*-3.2*	*0.2*	*1.5*	*2.6*	*3.0*
Non-life gross claims payments (US$b)	18	17	17	17	18	18
Non-life claims ratio (%)	*68*	*68*	*68*	*68*	*68*	*68*
Profits (€b)	4.0	5.4	6.8	7.8	8.6	9.3

Source: Oxford Economics.

Table 19
Netherlands: asset management

	2012	2013	2014	2015	2016	2017
Total assets under management (€b)*	66	66	68	70	73	76
% year	*6.3*	*-0.2*	*3.5*	*3.2*	*3.3*	*4.6*
Bonds (€b)	18	17	17	17	17	16
Equity (€b)	28	30	32	34	36	39
Fund of funds (€b)	14	12	13	13	13	14
Hedge (€b)	0.4	0.2	0.2	0.2	0.2	0.2
Mixed (€b)	6.2	6.0	5.9	5.9	6.0	6.2
Money market (€b)	0.2	0.1	0.1	0.1	0.1	0.1
Property (€b)	-	-	-	-	-	-

Source: Oxford Economics; Lipper FMI.

*UCITS and non-UCITS assets.

Spain

Table 20
Spain: banking

	2012	2013	2014	2015	2016	2017
Total assets (€b)	3,423	3,193	3,200	3,275	3,358	3,504
Total loans (€b)	1,719	1,589	1,608	1,662	1,722	1,797
Business/corporate loans (€b)	800	767	792	834	876	928
Consumer credit (€b)	187	183	182	185	188	192
Residential mortgage loans (€b)	605	570	565	571	579	594
Non-performing loans as % of total gross loans	10.4	12.0	12.5	10.5	8.5	6.8
Deposits (% year)	-3.9	2.1	3.5	5.0	5.0	4.3
Loans/deposits (%)	124	113	111	109	108	108
Total operating income (€b)	102	99	98	106	113	118

Source: ECB; Oxford Economics.

Table 21
Spain: insurance

	2012	2013	2014	2015	2016	2017
Life gross premium (US$b)	35	36	37	38	38	40
% year	*-16.0*	*2.7*	*2.7*	*1.7*	*2.2*	*2.7*
Life gross claims payments (US$b)	17	18	20	22	24	26
Life claims ratio (%)	*47*	*51*	*55*	*58*	*62*	*66*
Non-life gross premium (US$b)	39	38	37	38	39	40
% year	*-9.5*	*-3.9*	*-0.3*	*1.8*	*2.4*	*2.8*
Non-life gross claims payments (US$b)	13	14	15	17	19	21
Non-life claims ratio (%)	*34*	*38*	*41*	*45*	*48*	*52*
Profits (€b)	1.1	0.9	1.0	1.1	1.1	1.2

Source: Oxford Economics.

Table 22
Spain: asset management

	2012	2013	2014	2015	2016	2017
Total assets under management (€b)*	80	92	101	107	113	119
% year	*-4.9*	*15.8*	*9.6*	*6.0*	*5.5*	*5.1*
Bonds (€b)	32	39	44	46	49	52
Equity (€b)	11	14	15	16	17	18
Fund of funds (€b)	12	14	15	16	17	18
Hedge (€b)	0.6	0.7	0.7	0.7	0.8	0.8
Mixed (€b)	11	11	12	12	13	14
Money market (€b)	10	10	11	12	12	12
Property (€b)	4.2	3.8	3.8	3.9	4.1	4.3

Source: Oxford Economics; Lipper FMI.

*UCITS and non-UCITS assets.

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