

**Scottish Financial Enterprise**

**Quarterly Survey of Scotland's Financial Services Industry**

**Sponsored by Capgemini**

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**Quarter 4, 2007**

# This survey assesses, on a regular basis, the views of leaders of financial services businesses based in Scotland

## *Scottish Financial Enterprise – Q4 2007 Survey*

### **Objectives**

- To provide a snapshot of the views of financial services companies based in Scotland
- To gain insight into their performance over the last quarter and how this may change in the next
- To show how views differ between sectors
- To understand medium and long-term trends in the industry in Scotland

### **Quarterly Approach**

- Survey is undertaken across the Scottish Financial Enterprise membership base
- Questionnaire is issued to all participants at the end of each quarter
- Results are collated and aggregated by Capgemini for Scottish Financial Enterprise
- Findings refer to this and previous quarters' surveys to measure perceived vs. actual performance
- No weighting is applied to differentiate between responses received from companies of different sizes

# Business confidence is down when compared to the previous quarter

## Summary Results from across the Financial Services Industry

### General Business Confidence

- Overall business confidence is down for most respondents when compared with Q3
- Around one third of respondents are forecasting decreased confidence in their company's business prospects for Q1
- The forecasts for the year ahead are mixed, with 38% of respondents stating confidence in their company's prospects and 31% forecasting a decline

### Business Volumes

- Over a third (38%) of respondents reported that business volumes have risen compared to the previous quarter
- 31% of responding companies forecast that volumes will rise over the coming quarter, with nearly one third (31%) expecting business volumes to fall
- 65% of respondents report that volumes are up from Q4 2006

### Profitability

- Over half (52%) of respondents reported that their profit margins remained stable in Q4 compared to Q3
- A quarter of respondents (28%) saw a fall in margins in Q4 compared to Q3, this was 16% percentage points higher than was predicted for Q4
- 28% of respondents reported that their profit margins were down compared to Q4 2006
- Nearly two thirds (60%) of respondents believe that their profit margins will remain level in the coming quarter

### Geographical Source of Business

- Compared to Q3, more companies than previously forecasted reported a decline in turnover across all regions, with the exception of Asia
- The number of respondents reporting an increase in turnover in Q4 in Scotland, Rest of the UK and the Rest of Europe, was lower than had been previously forecast
- The majority of respondents are expecting turnover in all regions to remain broadly level in Q1

### Business Investment

- 29% of respondents reported an increase in business investment on the previous quarter
- For Q1, 29% of respondents are anticipating increases in the levels of capital expenditure
- Despite no respondents reporting a drop in capital expenditure in Q4, 8% are anticipating decreased expenditure in Q1

### Employment Levels

- 19% of respondents have reported a decline in headcount for Q4, this is up 12 percentage points from the Q3 forecast
- Respondents reporting an increase in employment levels fell 11 percentage points from Q3 to 35%
- Looking forward, the majority of respondents forecast either an increase in (38%), or level (46%) rates of employment in Q1

### Other Factors Affecting Business

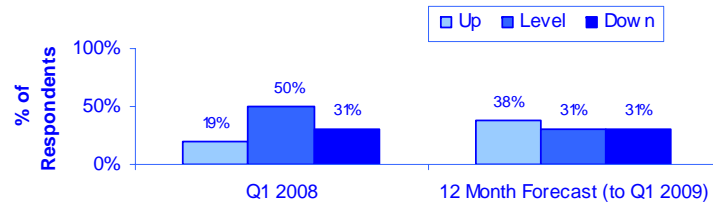
- Factors perceived to be a limit to growth have remained consistent from the previous quarter, with the top 4 issues remaining the same as in Q3
- 'Other Economic Factors' remains the main concern for most respondents
- Availability of staff rose in prominence as an issue this quarter, with greater numbers of respondents listing both the availability of Professional/Management and Administration staff as a limit to growth

**While Q1 forecasts are pessimistic, in the longer term respondents are forecasting business performance to improve or remain stable over the year ahead**

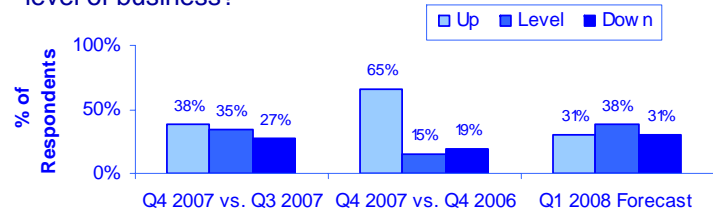
# Business confidence is down for Q1 with companies predicting mixed results for 2008

## Data on Business Confidence, Volume and Profitability

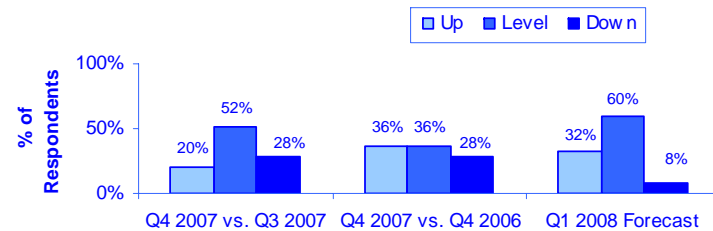
- General Business Confidence:** What is your overall confidence in your company's business prospects?



- Volume:** Excluding seasonal variations, how would you rate the level of business?



- Profitability:** How would you rate your margin?



## Commentary

### General Business Confidence:

- When comparing business confidence with the previous quarter, overall confidence is down
- Around one third (31%) of responding companies expect decreased business confidence for Q1, a rise of 17 percentage points on the previous quarter
- Over the next 12 months, only 38% of respondents believe that their prospects will improve, whereas 31% believe that their prospects will decline, a rise of 24 percentage points on Q3

### Volume:

- 38% of respondents reported that their business volumes have improved compared to the previous quarter, a fall of 5 percentage points on the Q3 prediction
- 27% of respondents reported that their business volumes were down compared to the previous quarter, a rise of 9 percentage points on the figure predicted in Q3
- Around one third (31%) of responding companies expect business volumes to fall in Q1

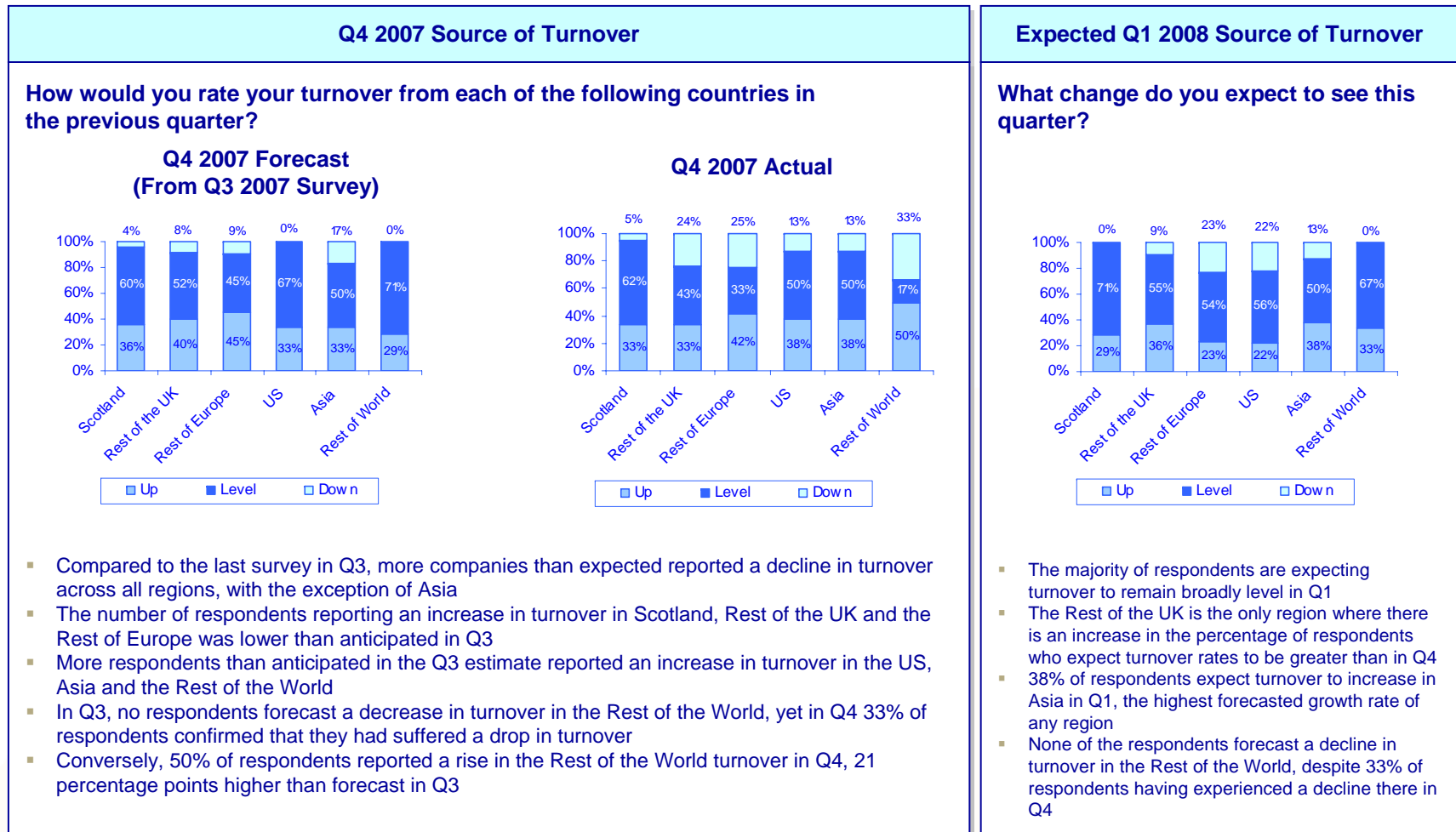
### Profitability:

- For Q4, more than half (52%) of respondents reported that their profit margins remained stable, while 28% saw a fall in margins, a figure 16 percentage points higher than predicted in Q3
- Over one quarter of respondents (28%) reported that their profit margins were down compared to Q4 2006
- 92% of respondents believe that their profit margins will either remain steady or be up in the next quarter

**Despite volume forecasts being down for Q1, profitability predictions are slightly up or stable**

Note: Percentages may not add up to 100% due to rounding

# The number of respondents reporting a decrease in turnover was higher than forecast in five of the six regions



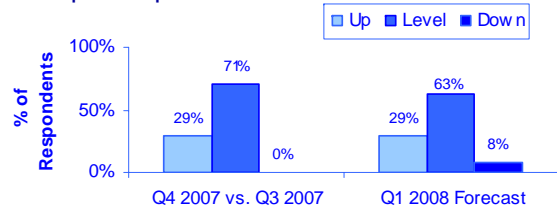
**Despite 33% of respondents having experienced a drop in turnover in the Rest of World in Q4, no respondents are forecasting revenue to decline there in Q1**

Note: Percentages may not add up to 100% due to rounding

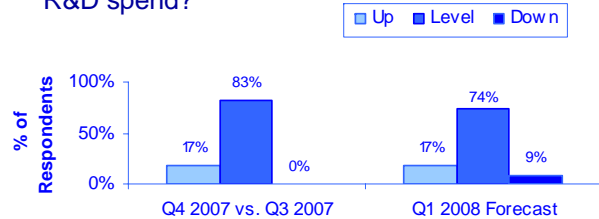
# Respondents continue to report level or increased business investment and R&D spend for Q4 2007

## Data on Business Investment, R&D and Employment Levels

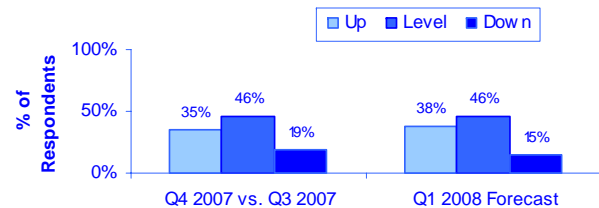
- Business Investment:** How would you rate your levels of capital expenditure?



- Research & Development (R&D):** How would you rate your R&D spend?



- Employment Levels:** Excluding seasonal variations, how does your headcount compare with the previous quarter?



## Commentary

### Business Investment:

- In Q4, 29% of respondents reported an increase in business investment on the previous quarter, a 14 percentage point increase on Q3's forecast
- 29% of respondents are anticipating increases in the levels of capital expenditure in Q1
- Despite no respondents reporting a drop in capital expenditure in Q4, 8% are anticipating decreased expenditure in Q1

### Research and Development:

- R&D spend for Q4 was very close to the Q3 estimate, with 17% of respondents increasing their spend and 83% rating their expenditure as level
- Going forward, 9% of respondents anticipate a decrease in R&D spend in Q1
- Those forecasting no change in spending in Q1 comes in at 74%, a drop of 10 percentage points on the Q3 forecast

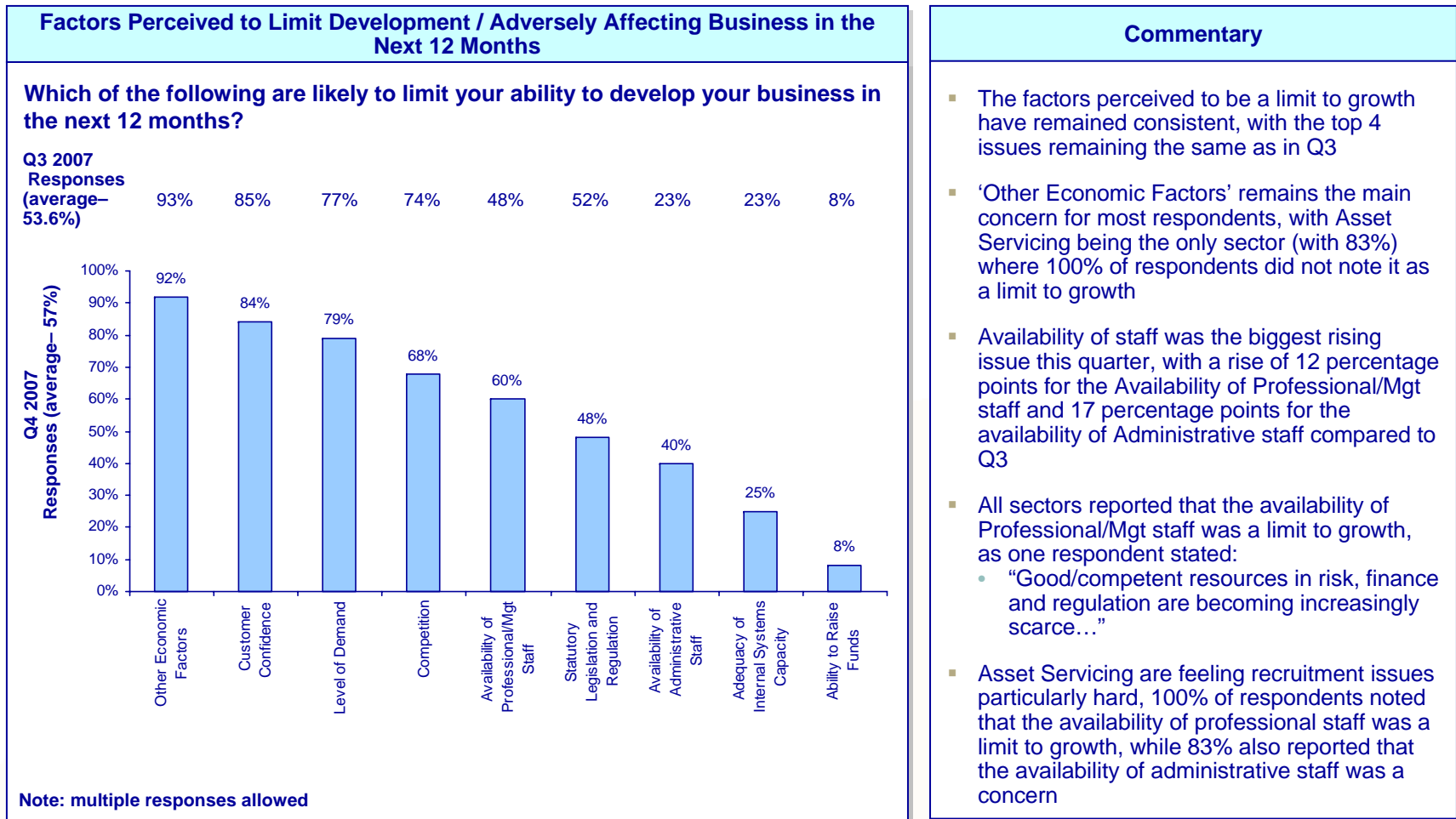
### Employment Levels:

- 19% of respondents reported a drop in headcount for Q4, up 12 percentage points from the Q3 forecast, while those reporting an increase in employment levels fell 11 percentage points from Q3 to 35%
- Looking forward, the majority of respondents forecast either an increase in (38%), or level (46%) rates of employment in Q1
- The number of respondents now anticipating a decline in employment rates is up 8 percentage points to 15% when compared to the Q3 forecast

***The trend is towards steady or increasing levels of investment, R&D and employment in Q1 2008***

*Note: Percentages may not add up to 100% due to rounding*

# Given the ongoing market volatility, for the second quarter running ‘Other economic factors’ remains the main concern for limiting business development



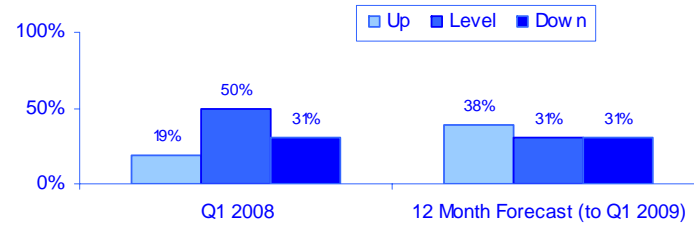
**The availability of staff, both Professional/Management and Administrative, has become more of a concern**

Note: Percentages may not add up to 100% due to rounding

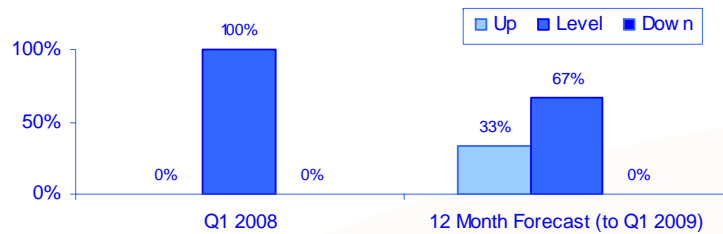
# Asset Servicing is the only sector forecasting an increase in confidence in their prospects for Q1

*What is your overall confidence in your company's business prospects?*

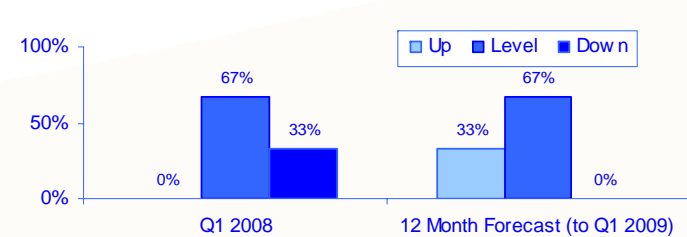
Overall Market View



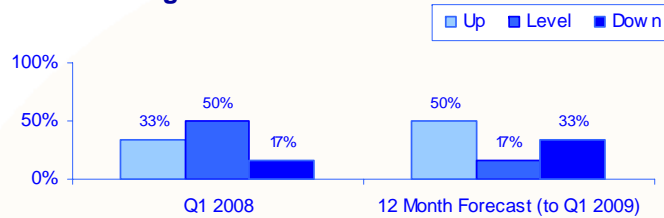
Banks and Building Societies



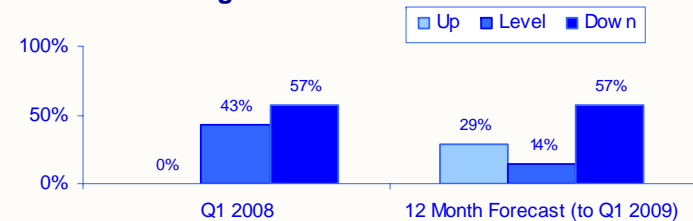
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



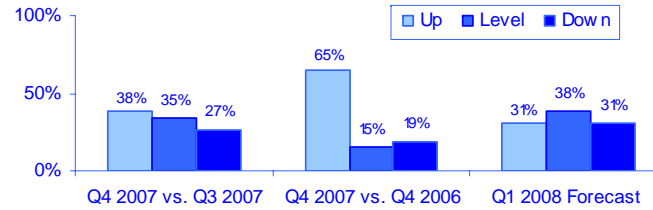
***The 12 month forecast ahead is mixed, with Investment Managers and Asset Servicing especially polarized***

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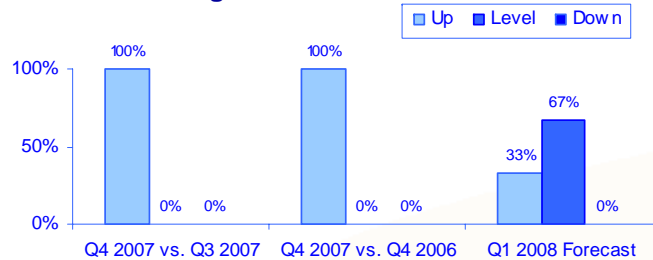
**The majority of respondents report increased or stable business levels in Q4, except within Investment Managers where there has been a significant downturn**

*How do you rate the level of business?*

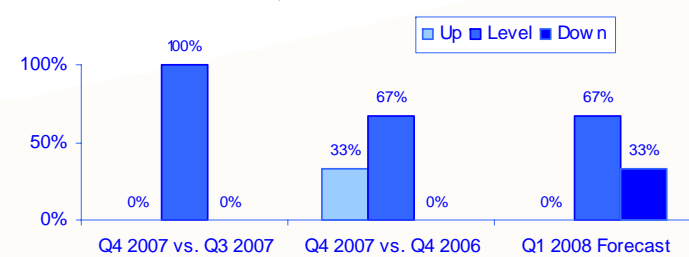
**Overall Market View**



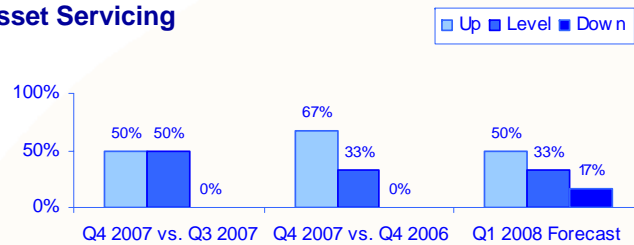
**Banks and Building Societies**



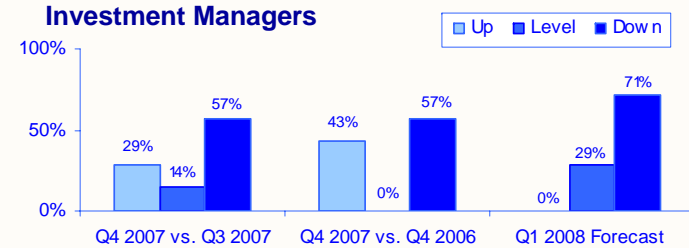
**General Insurance, Life Assurance and Pensions**



**Asset Servicing**



**Investment Managers**



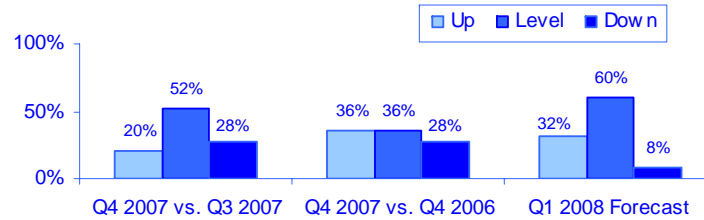
***For Q1, the trend is towards business levels stabilising, although respondents from the Investment Management sector are particularly pessimistic***

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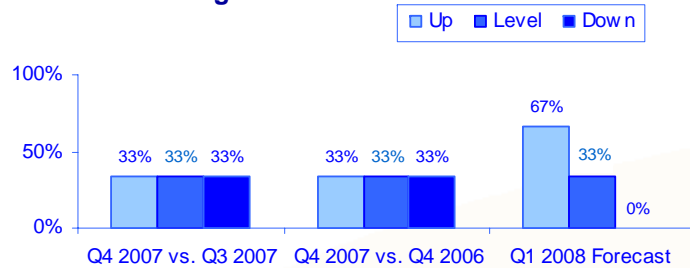
# Overall, across sectors there has been a movement towards a steadying of the market, although there are wide variations within individual sectors

*How do you rate your profit margins?*

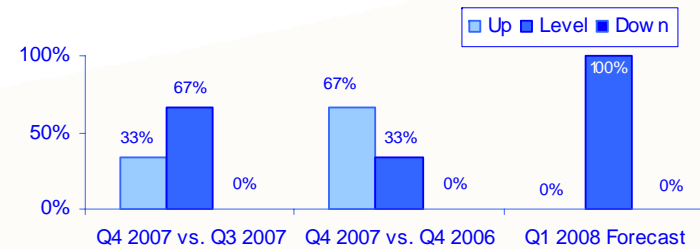
Overall Market View



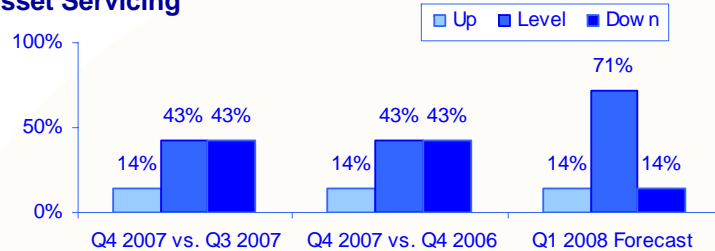
Banks and Building Societies



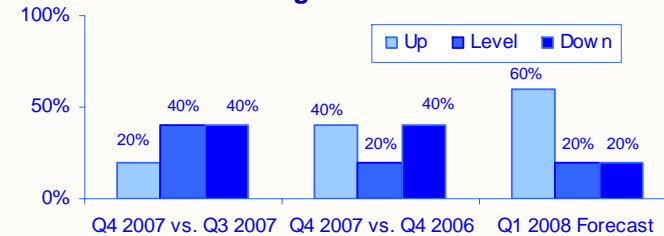
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



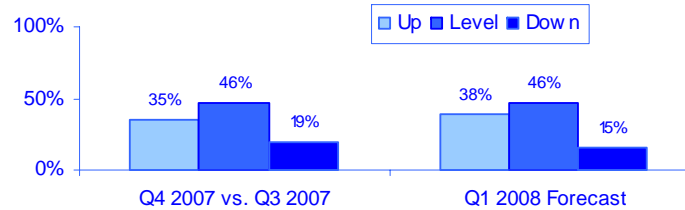
**The forecast for Q1 is generally positive, with only a small number of respondents from Asset Servicing and Investment Management forecasting a decline in profit margins**

Note: Percentages may not add up to 100% due to rounding

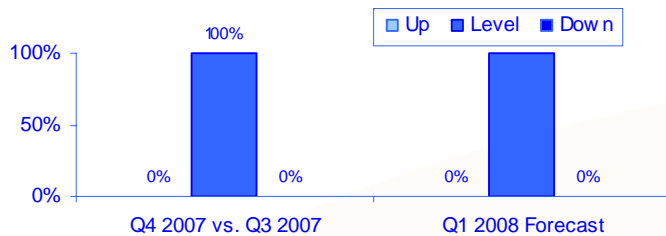
# The majority of respondents reported steady or increased employment levels in Q4 2007

*How would you rate employment levels?*

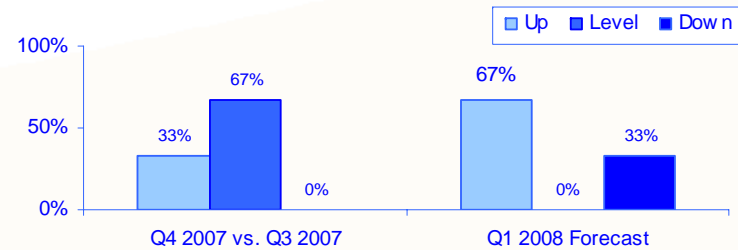
## Overall Market View



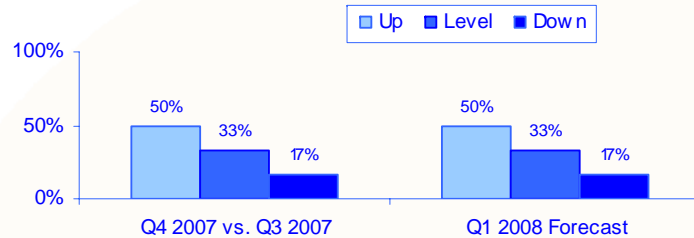
## Banks and Building Societies



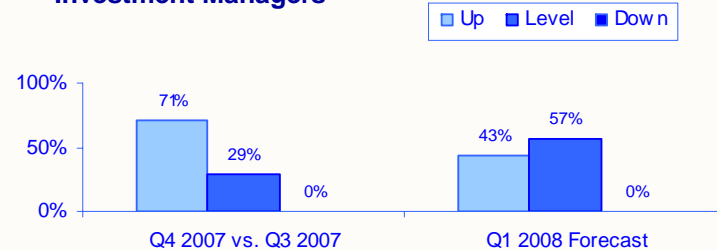
## General Insurance, Life Assurance and Pensions



## Asset Servicing



## Investment Managers



***The majority of sectors expect steady growth going forwards to Q1, with respondents from the Life and Pensions sector forecasting the most positive employment prospects***

*Note: Percentages may not add up to 100% due to rounding*

# APPENDIX – Split of factors perceived to limit business growth by sector

*Factors Perceived to Limit Business Growth*

