Example of a Finance Industry Analysis

**Texas Southern University**

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**Professor Reynolds**

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**Nyesha D. Lawrence**

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**Introduction**

Financial services refer to business services offered by or in support of the finance industry, which includes a range of organizations that deal with the management of money. Included in this definition of firms that manage money are banks, credit unions, credit card companies, insurance suppliers, consumer finance, brokerage, and investment funds. The term "financial services" became more prevalent in the United States partly as a result of the Gramm-Leach-Bliley Act of the late 1990s, which enabled different types of companies operating in the U.S. financial services industry at that time to merge. Services offers within the global Financial Services industry include but are not limited to Automotive Financing, Credit Card, Financial Planning, Online Investing, Smart Cards, Insurance, Debit Cards, Online Banking and Real Estate.

The financial services industry is comprised of a variety of businesses providing services broadly related to insurance, accounting, banking, brokerage, real estate, risk analysis, asset management, and investment. The following is a description of each service within the finance industry.

* **Insurance** firms either provide insurance themselves as insurance carries or sell the services of others as insurance brokers.
* **Banks** can be commercial or private, on the global, national, regional, or community level, and offer the safekeeping and lending of money as their primary services.
* **Brokerage firms** act as intermediaries between buyers and sellers for a variety of things, such as securities, equities, and other investment offerings.
* **Real estate firms** provide services such as buying, selling, developing, operating, and managing real estate.

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**History**

The financial services industry is relatively new, but certain parts of it, such as insurance coverage, go very far back in history. Insurance was officially born in 1680, when the first insurance was offered to insure brick and frame homes by The Insurance Office founded by Nicholas Barbon. This was a result of the devastation of the Great Fire of London in 1666.

The more recent historical events of interest involving financial services would be the Gramm-Leach-Bliley Act, enacted in the late 1990s in the U.S., which repealed the Glass-Steagall Act, by allowing a bank to offer investment, commercial banking, and insurance services. Also, financial deregulations in global markets lead to an automated quotation system for the stock exchange. The deregulations also lead to the creation of multi-service financial conglomerates which provided many services to customers, including 401(k)s, insurance, investment offerings, and mortgages. Driven by profits, the financial service industry helped to finance the home buying craze in the 1990s by offering subprime and adjustable rate mortgages. When the housing market collapsed in 2007, the subsequent defaults on mortgages almost caused a collapse of the financial services market in 2008.

**Factors that affect the growth of the industry**

As mentioned previously, the financial services industry is composed of 4 main sectors: insurance, banks, brokerage and real estate. All of these sectors have been under considerable change in the last few years primarily due to the financial crisis of 2008-09 and the following regulatory changes. They also all have many different risks facing them going forward.

 The largest risk facing the **insurance** segment is the changing demographics of the world today. The world is globally getting older, which puts strains on the insurance segment as it relies on having plenty of younger people to purchase their product in order to service the older people.

**Banks and Brokerages** are both facing a large amount of uncertainty risk due to changing regulations. It is yet to be determined how this will eventually play out, but it is certain that these sectors will be playing under vastly different rules later. Banks are specifically facing a lot of interest rate risk as the markets are in a very unusual low interest rate environment that makes it difficult for commercial banks to profit from the spread on rates (as was the case in the past).  Brokers are dealing with increased competition in the markets as there are significantly more brokers and asset managers than there were five years ago. The rise of ETFs has brokers concerned as those automated financial instruments may eliminate the need for many brokers.

**Real Estate** is known as a barometer of an overall countries health: when countries are healthy, real estate prices tend to go up and there tends to be more houses built and vice versa. As such, real estate is struggling to recover from the economic crisis.

The financial services industry is unique in that it is virtually entirely globally integrated and is sourced predominantly in developed countries.

**Government Regulations**

Federal financial regulations protect investors from financial risk and fraud.  The Consumer Financial Protection Bureau was created in 2010 by the [Dodd-Frank Wall Street Reform Act](http://www.google.com/url?q=http%3A%2F%2Fuseconomy.about.com%2Fod%2Fcriticalssues%2Fp%2FDodd-Frank-Wall-Street-Reform-Act.htm&sa=D&sntz=1&usg=AFQjCNFFnQrgenQN73zZD9rzwk_EtmwVYQ). It seeks to protect consumers' financial security by regulating credit, debit and prepaid cards, payday and [consumer loans](http://www.google.com/url?q=http%3A%2F%2Fuseconomy.about.com%2Fod%2Fdemand%2Fa%2FAverage-Consumer-Debt-Statistics.htm&sa=D&sntz=1&usg=AFQjCNFg2wyzijM2v39qm7OUUzm96EOGrg), as well as credit reporting, debt collection, and financial advisory services. The CFPB also protects consumers in home real estate transactions. This includes title, escrow and financing businesses affiliated with realtors and homebuilders. It oversees equal credit opportunity and fair housing, and set standards for all mortgage offerings. Although it doesn't ban risky mortgage products, like interest-only loans, it requires some [regulations to make them safer](http://www.google.com/url?q=http%3A%2F%2Fabcnews.go.com%2Fblogs%2Fbusiness%2F2013%2F01%2Fnew-ban-on-risky-home-loans&sa=D&sntz=1&usg=AFQjCNFVL1Bfka9vsjGnnPPUubrrUz5qVg), and proof that borrowers understand the risks. The CFPB also makes [banks](http://www.google.com/url?q=http%3A%2F%2Fuseconomy.about.com%2Fod%2Fglossary%2Fg%2FBanking.htm&sa=D&sntz=1&usg=AFQjCNESOISDuYd1sqWB9HmvIipHre-VSg) verify applicants' income, credit history and job status. The new Bureau reports to the Treasury

Obama promised tougher regulations on insider trading in his [economic campaign platform](http://www.google.com/url?q=http%3A%2F%2Fuseconomy.about.com%2Fod%2Ffiscalpolicy%2Fp%2FObama_economy.htm&sa=D&sntz=1&usg=AFQjCNEiUyiSQQursrOnuue17TmTJEvPzw). He wanted to streamline regulatory agencies, especially those that oversee banks that borrow from the government, establish a [financial market](http://www.google.com/url?q=http%3A%2F%2Fuseconomy.about.com%2Fod%2Fthemarkets%2Fa%2Fcapital_markets.htm&sa=D&sntz=1&usg=AFQjCNFKb8yHOU-8E3_oZ1K-An95jY48fg) advisory group, improve transparency for financial disclosure, and crack down on trading activities that could manipulate markets.

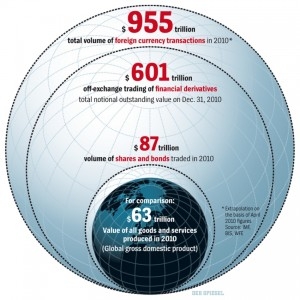
**Leading Businesses in the Industry**

***Top Rated Financial Service Companies***

1. FISHER INVESTMENTS
2. SUSQUEHANNA INTERNATIONAL GROUP
3. GOLDMAN SAC
4. AMERICAN EXPRESS
5. GENERAL ELECTRIC(GE)
6. MERRILL LYNCH
7. T. ROWE PRICE

**Size of the Industry**

The graphic below shows the astonishing size of the global financial industry:



The financial industry grew rapidly, as did the sums of money with which its players speculated on the prices of stocks, commodities and government bonds. The products they developed to turn money into even more money became more and more complex. At the same time, the risks they were willing to accept became incalculable.

**Sales Trends over the recent years**

The way businesses buy from and sell to each other is changing. While some trends were emerging before the recession, the downturn has accelerated their adoption to create a very different business-to-business (B2B) sales environment.

**Current Operational/Management Trends in the Industry**

In its operational financial sector work, the Bank aims to develop a comprehensive policy advice package on e-finance for specific countries. This package will include advice on the legal framework to support electronic finance, the framework for electronic security, the telecom infrastructure, and the information infrastructure (e.g., credit bureaus and

Registries). For this type of advisory services, the Bank will deploy multidisciplinary teams to work on pilot cases to examine how technology can be applied to broaden access to financial sector services and what needs to be changed to the country’s policy framework. This package of services can include technical assistance and could over time be mainstreamed into Bank products, such as financial sector adjustment lending and other operations.

**The most current 7 Trends in the financial industry include:**

1. New Regulatory Initiatives
2. Cost of Financial Data
3. Easier to Understand Financial Products
4. Automated Financial Tools
5. Better Financial APIs & Interfaces
6. New Payment & Credit Options
7. Crowd funding

**Marketing Strategies**

Clearly, the industry is taking a proactive approach to content marketing — yet it still lags behind in some respects. It could be the industry's regulations, or the fact that financial services content just works better with a straightforward approach. However, those are self-imposed limitations — ones that leave opportunities for bold and innovative companies to take advantage.

**Marketing Predictions Financial Industry**

**1.** Mobile Banking Growth and Expansion

* More smartphones than feature phones
* Customer demand for mobile banking and adoption rates
* Availability of technology
* Security

2. Tablets Replace Home PCs

3. Fee Replacement Opportunity

4. Mobile Wallet — Coming Soon!

5. Customer-Centric Approach Is Here to Stay

6. Integration of Social into Channel Strategy

I7. Future of the Physical Branch

8. Digital Vault, Not Hard-Drive Backup

9. Online Account Opening — Next Generation

10. Content Strategy

**Other Important Facts about the Finance Industry**

The Business in the Finance Industry is seasonal because companies that earn the majority of their income during a small part of the year because of factors such as weather, holidays and/or customs. The businesses in a seasonal industry will make little or no money outside of the season that their business revolves around. These businesses must either make enough money during their seasons to last the business owners the entire year, or the business owners must have other sources of income to sustain them during the off season.

This industry is sensitive to economic fluctuation because revenues are generally higher in periods of economic prosperity and expansion and lower in periods of economic downturn and contraction. Another name for this would be called cyclical industry. Companies in cyclical industries can deal with this type of volatility by implementing cuts to compensations and layoffs during bad times, and paying bonuses and hiring en masse in good times. Cyclical industries include those that produce durable goods such as raw materials and heavy equipment.

**Demographics within the Finance Industry**

The Finance Industry is an important aspect of the economy including banking, credit, securities and insurance activities. It offers many well-paying jobs, and is expected to see growth in the coming years. This report examines the Finance Industry with respect to the employment of women, African Americans, Hispanics, Asians and American Indians /Alaskan Natives. Of particular interest is the status of these groups in management positions. EEO-1 data is utilized to examine the subsectors of the Finance Industry.

• The percentage of women officials and managers is highest in the Banking/Credit subsector (48.6 percent) and their lowest percentage is in the Securities subsector (33.8 percent). The percentage of women officials and managers in each of the subsectors falls below the percentage of women employed as professionals, which might be considered a source for management jobs.

• Similar disparities between the percentage of African American officials and managers and the percentage of African American professionals are also observed. Among the Financial Industry subsectors, the percentage of African American officials and managers is highest in the Banking/Credit subsector (7.0 percent) and lowest in the Securities subsector (4.4 percent).

• The percentage of Hispanic officials and managers is highest in the Central Banking subsector (5.1 percent) and lowest in the Securities subsector (2.9 percent). In all subsectors, the percentage of Hispanic officials and managers is less that the percentage of Hispanic professionals.

• The highest percentage of Asian officials and managers is in the Securities subsector (6.4 percent) and the lowest percentage of Asian officials and managers is in Central Banking and Insurance (2.8 percent). Like the other groups examined, the percentage of Asian officials and managers falls below the percentage of Asian professionals in each subsector.

• Employment as officials and managers is examined in more detail for each of these groups by determining their chance of being officials and managers in contrast to professionals and sales workers. This shows that each subsector has a large portion of establishments where such chances are unfavorable to women, African Americans, Hispanics and Asians when compared to white males. Entry into management may be a particular concern for Asians.

• While the relative chance of being an official or manager is better in the Securities subsector for each of the groups analyzed, the low proportion of women and African American professionals in this subsector may be partly responsible for these results.

**Competitor Information**

***THE WORLD'S TOP 10 MOST INNOVATIVE COMPANIES IN FINANCE 2014***

1. **NICE SYSTEMS**- For connecting banks and other clients to frazzled end users when problems arise.

2. **SQUARE-** For creating an email-based payment system that is perhaps the simplest way to transfer money ever.

3. **BITCOIN**-For emerging from the shadowy corners of the web into merchants’ cash registers.

4. **GIVEDIRECTLY**- For funneling charitable donations to developing countries via smartphone, boosting livestock holdings and income rates.

5. **DWOLLA**- For daring to take on the fee-laden credit card establishment.

6. **TRANSFERWISE**- For slashing pesky foreign-exchange costs by creating a transparent peer-to-peer network.

7. **ONEID**- For establishing a single login for web users and taking a giant leap toward eradicating the scourge of the Internet: passwords.

8. **MASTERCARD**- For luring international customers with a mobile-payment network that lets them purchase with a simple click.

9. **ESTIMIZE-** For building a crowdsourced platform for analysts that throws a wrench in the Wall Street monopoly on quarterly-earnings forecasting.

10. **ETORO-** For creating a social network that lets traders emulate those with skin in the game.

**The Market Share of Finance**

The U.S. finance industry comprised only 10% of total non-farm business profits in 1947, but it grew to 50% by 2010. Over the same period, finance industry income as a proportion of GDP rose from 2.5% to 7.5%, and the finance industry's proportion of all corporate income rose from 10% to 20%. The mean earnings per employee hour in finance relative to all other sectors has closely mirrored the share of total U.S. income earned by the top 1% income earners since 1930. The mean salary in New York City's finance industry rose from $80,000 in 1981 to $360,000 in 2011, while average New York City salaries rose from $40,000 to $70,000. In 1988, there were about 12,500 U.S. banks with less than $300 million in deposits, and about 900 with more deposits, but by 2012, there were only 4,200 banks with less than $300 million in deposits in the U.S., and over 1,800 with more.

The financial services industry constitutes the largest group of companies in the world in terms of earnings and equity market capitalization. However it is not the largest category in terms of revenue or number of employees. It is also a slow growing and extremely fragmented industry, with the largest company ([Citigroup](http://en.wikipedia.org/wiki/Citigroup)), only having a 3% US [market share](http://en.wikipedia.org/wiki/Market_share). In contrast, the largest home improvement store in the US, [Home Depot](http://en.wikipedia.org/wiki/Home_Depot), has a 30% market share, and the largest coffee house [Starbucks](http://en.wikipedia.org/wiki/Starbucks) has a market share of 32%.

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