

# *Keeping pace with accelerating change*

## Banking and Capital markets industry summary

*Key industry findings  
from the 14th Annual  
Global CEO Survey*



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# Banking and Capital Markets

*The global economy is still recovering from the worst economic crisis in 75 years, with many countries grappling with the aftermath of the recession. So we set out to uncover how CEOs are approaching growth during a time when sustainable economic growth is far from certain. We surveyed 1,201 business leaders in 70 countries around the globe, in the last quarter of 2010, and conducted further in-depth interviews with 31 CEOs.*

*The PricewaterhouseCoopers 14th Annual Global CEO Survey documents a surprising level of confidence in this environment; chief executives were nearly as confident of growth this coming year as in the boom years before the crisis. The survey also revealed where CEOs saw growth coming in 2011, and how they were going to achieve it. In *Growth reimagined: Prospects in emerging markets*, we show how CEO confidence is being driven by targeted investments in particular emerging markets – often far from home.*

*This is a summary of the findings in the banking and capital markets sector, which is based on a survey of 69 industry leaders. To explore the full results from the 14th Annual Global CEO Survey, please visit [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey)*

## *Accelerating pace of change*

The changes in customer behaviour, shift in global economic power and increasing government influence over banking and capital market business are not temporary blips; they herald the beginning of more far-reaching changes.

Many banking and capital markets CEOs are facing challenges they won't have seen in their careers. One of the most striking features of the post-crisis environment is the unprecedented savings levels. Many people assume that savings will begin to fall back again and that appetite for consumer credit will increase, once unemployment and other economic concerns recede. However, Richard K. Davis, President and CEO of U.S. Bancorp, who was interviewed as part of the CEO survey, sees high savings and cautious borrowing as an enduring long-term trend. "In the same way, for the younger people who went through this recession, it will forever have an impact on the way they behave, the way they incur debt, the way they spend, the way they save. It will be a permanent change," he said.

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Richard K. Davis, President and CEO of U.S. Bancorp

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Li Lihui, President of the Bank of China

Our own analysis points to a similar conclusion. In the US, for example, we estimate that increased life expectancy, together with the decline in defined benefit pensions and resulting uncertainty over retirement funding, could raise the savings rate to as high as 10% of disposable income, a level not seen since the 1970s. (In the years leading up to the financial crisis it was running at below 3%<sup>1</sup>.) Pension concerns may also slow down any reduction in China’s high savings rates and impede attempts to boost consumption there, both factors which could play an important role in stimulating global growth.

### ***Opportunities for growth***

The demographic shift and its impact on the banking and wider financial services industry is one of the ‘mega trends’ explored in *Project Blue: From ubiquity to precision*, our latest analysis of the prospects for banking industry. The rise of the emerging markets is another of the global developments that are set to shape the direction and fortunes of the sector.

Our economic forecasts suggest that the GDP of the E7 emerging economies could be bigger than that of the G7 economies by 2020, and that China may overtake the US before the end of the decade<sup>2</sup>. Many Western banks are looking to offset the slow growth in their home markets by strengthening their presence in South America, Africa, Asia and the Middle East (SAAAME). Most of the banking and capital markets leaders participating in our survey are clearly in this camp. Sixty-one percent think that emerging markets will be more important than developed markets to their organisation’s future.

However, success will be hard won. Global groups face tough challenges in securing sufficient talent to meet their growth aspirations across the SAAAME

markets. Fifty-seven percent of banking and capital markets CEOs see the availability of key talent as a significant threat to their growth prospects.

Western banks are also set to face stronger competition from E7 banks, both within the emerging markets and, increasingly, on their own turf. The market capitalisation of some of the E7 banks is now bigger than that of their G7 competitors and they will want to take advantage of their growing scale. Li Lihui, President of the Bank of China, summed up such ambitions, when he said: “In the future, we hope to further expand our overseas networks through a range of strategic options that include establishing additional branches and considering select merger and acquisition opportunities. Regardless of the approach, though, our objective is to improve the efficiency and profitability of our overseas operations.”

One of the keys to sustaining a competitive position in this new environment will be the ability to tap into the rapidly increasing emerging-to-emerging market trade flows. With much of the SAAAME commerce now bypassing the West, developed market banks face the challenge of making inroads into business they may rarely see.

<sup>1</sup> PwC, The New Rule of 10%: The coming pension crisis, higher savings rates and fundamental changes in the US financial services industry (May 2010).

<sup>2</sup> PwC, The World in 2050: The accelerating shift of global economic power: challenges and opportunities (January 2011).

### **Hands tied**

A further challenge to Western banks' current business models and future growth aspirations is set to come from the rise of state-directed capitalism, another of the mega trends highlighted in our analysis. The vast majority of banking and capital markets CEOs (80%) see over-regulation as the biggest threat to their growth prospects (see Figure 1). Their room for manoeuvre could be restricted still further in the coming years.

As Western banks go back to basics in the wake of the financial crisis, their fortunes are very much tied to the real economy. Many governments now play a much more active role in directing the economy, following the crisis, and want banks to play a more active role in supporting local business. Nicholas Moore, CEO of the Macquarie Group Limited, believes that this public/private partnership is likely to be extended in the future. "We expect that governments will not only be looking to the private sector for the provision of capital, but

increasingly for the delivery of a whole range of social services. For example, in the UK the government is looking at different ways to procure services from the private sector in terms of meeting the government's objectives," he said.

The majority of the banking and capital markets CEOs taking part in our survey seem to hold similar views. More than two-thirds (68%) think that business will need to actively support new government policies that promote good growth and are financially, socially and environmentally sustainable. Nearly three-quarters (74%) are also strengthening their focus on rebuilding public trust.

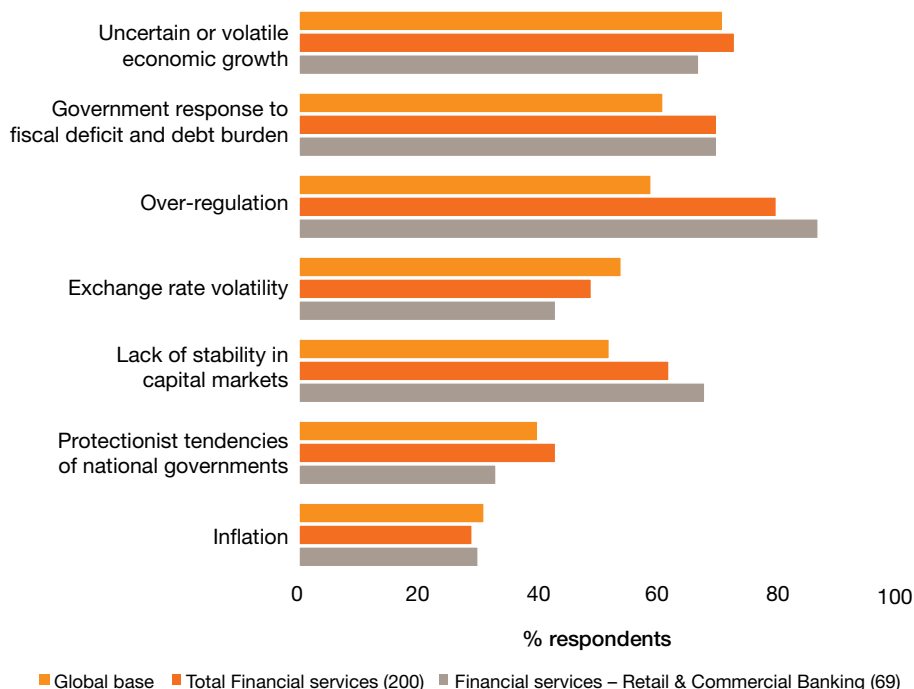
However, it could be difficult for Western banks to sustain profitability and growth in this environment. If banks are required to primarily focus on their home markets, the pool of available customers is set to shrink. This may be especially challenging for international banks based in countries with relatively small populations. It may also be harder to release the necessary investment for overseas growth. There may be heightened risks if banks are required to buy government debt or support local businesses, as, in the event of a crisis, they would face both direct losses and the fallout from any resulting downturn.

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Nicholas Moore, CEO of the Macquarie Group Limited

**Figure 1: Policy and economic threats**

Respondents who stated 'extremely' or '-somewhat concerned'



Q: How concerned are you about the following potential economic and policy threats to your business growth prospects?

Base: All respondents (1,201)

Source: PricewaterhouseCoopers 14th Annual Global CEO Survey 2011

Yet, although many banking and capital markets CEOs (51%) saw political instability as the most significant global risk, they did not generally rate a number of the underlying causes as important. For example, only 17% see scarcity of natural resources as a significant risk, and only 30% are worried about the impact of inflation.

### Unstable world

The pressure on natural resources is driving up the price of food, commodities and other goods, and creating the potential for social unrest and international conflict. A number of presentations at the latest PwC-sponsored 'Risk Minds' conference highlighted the destabilising impact of food and commodity price inflation. Recent examples include food riots in various African and Asian states. Threats to food and water security, and the resulting potential for geopolitical instability, also feature prominently in the World Economic Forum's Global Risks 2011 Report, which was launched at Davos in January<sup>3</sup>.

Banks face the challenge of adjusting to a world where assets that are now taken for granted, such as land and water, may become increasingly scarce. They will almost certainly come under growing pressure to invest in sustainable technologies. Yet, although many banking and capital markets CEOs (51%) saw political instability as the most significant global risk, they did not generally rate a number of the underlying causes as important. For example, only 17% see scarcity of natural resources as a significant risk, and only 30% are worried about the impact of inflation.

<sup>3</sup> World Economic Forum, *Global Risks 2011* (January 2011).

It's notable that 87% of banking and capital markets CEOs believe that innovations will lead to operational efficiencies and provide them with a competitive advantage. Sixty-four per cent also believe that their IT investments will help them to tap into new marketing and transactional opportunities such as mobile devices and social media.

### **Facing the future**

In short, our 14th Annual CEO Survey shows that banking and capital markets CEOs recognise that the world is changing and that their organisations will have to change with it. However, some of them may have underestimated the potential threat to the viability of their business models and the urgency of the pressure to change.

While the CEO Survey looks to the near- and medium-term, the effects of many of the longer term mega trends identified in our analysis of the prospects for banking, *Project Blue: From ubiquity to precision*, are already being felt. As a result, some traditional revenue streams may no longer be sustainable, and some growth plans may need to be rethought or shelved altogether. But there will also be opportunities for smart organisations to take advantage of this new environment and pull ahead of their competitors.

Technology and innovation will be critical in enabling banks to cut their costs, respond to changing customer expectations and create the agility needed to capitalise on opportunities. It's notable that 87% of banking and capital markets CEOs believe that innovations will lead to operational efficiencies and provide them with a competitive advantage. Sixty-four percent also believe that their IT investments will help them to tap into new marketing and transactional opportunities such as mobile devices and social media.

Ultimately, however, the most successful organisations are likely to be those that can identify and make the most of their principal competitive strengths. This will probably accelerate the move from ubiquity to precision as banks become ever more ruthless in the defence and optimisation of their core franchise.

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