

# News Release

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Financial services will adapt to its new world with significant changes to its traditional models argues a new PricewaterhouseCoopers report

The global financial landscape has reshaped significantly, states a new PricewaterhouseCoopers (PwC) paper, "The Day after Tomorrow". It analyses the emerging themes and new models as the fallout from the credit crisis continues and financial services providers grapple with a new environment.

According to the PwC paper, distinguishing features of the new landscape are

- an accelerated shift of economic power towards the East (BRIC countries)
- a simpler more transparent form of banking based on a more classic banking model
- governments "inside the tent", raising significant conflicts of interest
- a stricter governance structure based on national and international regulation and
- the need for sustainable business models that move financial institutions from survival to longer term strategies

**Jeremy Scott**, Global Financial Services Leader, PricewaterhouseCoopers, said:

*"Financial transformation of this kind is unprecedented and as the financial crisis has developed it has become clear that the only thing you can expect is the unexpected. Consequently, old ways of working may no longer apply in some instances and wholesale change across the sector can be predicted. The interdependency of the global markets combined with the vast array of stakeholders: Government, regulators, management and shareholders with interests in returning to less volatile times, make it ever more vital that action to deal with uncertainty is taken."*

Key findings include:

- **Shift in global power towards the East**

The shift of financial power from the West to the East has accelerated. The credit crunch has burst the asset bubble predicated on the investment flows generated by the macroeconomic imbalances in a US-centric global economy. The new patterns of world trade and investment that emerge from this fundamental rebalancing will look very different from the US-centred system.

- **The rise of Nouveau Classic banking**

A smaller, more tightly regulated banking system and the dominance of the universal banking model will be central features of a new banking landscape. The shadow banking system will largely be dismantled. Banks that relied heavily on capital markets for their liquidity and that were specialist rather than universal are having to restructure. In future, this “Nouveau Classic” banking model will be simpler, more risk averse and more transparent. Profits will be lower, but risk-adjusted returns will not drop by as much, because the risk profile of the business mix will also decline. Banks will retain a larger part of their own origination and will take more responsibility for the due diligence necessary to ensure credit quality.”

**Michal Kopanič**, Leader of Financial Services, PricewaterhouseCoopers Slovakia, said:

*“Apparently, the traditional art of banking - taking deposits and extending loans - played a rather ancillary role in certain countries in recent years and banks were involved in many other activities, which were not limited by capital adequacy requirements.*

*“Traditionally, people have trusted a bank with their excess money and the key role of a bank would be to use these resources in a sufficiently prudent way so that it could ensure the repayment of deposits, payment of interest to the client and realise a reasonable margin covering the cost of bank's operations and an acceptable profit.*

*“It is obvious that banks are accountable to their clients-depositors first. Extending loans to businesses experiencing difficulties must be very carefully weighed and prudently considered - prudent lending is the basic requirement and banking really is seeing a return to basics.”*

- **Government “inside the tent”**

Governments are expected to intervene more heavily in the way the financial system operates, in order to stimulate worldwide economies. This intervention is already evident in the US and UK, with pressure being applied to state-supported banks with respect to re-possession and foreclosures and SME lending. More conflict should be expected as Governments reflect society's wishes and exert influence on banks' governance, tax, dividend policy and compensation. After such a massive bail out, society expects that the banks will adjust their behaviour to reflect the wider public interest and not necessarily shareholder interests.

- **The pursuit of “zero-risk” regulation**

The fundamental weaknesses in the regulatory regime have been exposed, and material, substantive changes to the regulatory environment will be made. There is recognition that regulatory shortcomings cannot be dealt with on a national basis alone. The G20 has already outlined an Action Plan for Regulatory Reform. However, while establishing one regulatory college would be fraught with conflicts of interest, it is an approach that must be strongly reviewed. The on-shore sector will have more regulation in more areas. Overall, financial stability will be the primary concern and anything that affects it will be regulated in one form or another. This will be aligned with a greater influence from Government over state-supported banks' strategies.

- **Unprecedented fiscal pressure**

Tax implications will be great for Western Governments that will face intense fiscal pressure as the recession and the decline in asset prices both reduce tax revenues. Banks will face a short-term reprieve but, in the longer-term, taxes will have to go up. Given the importance of financial services to the economies of the developed world, it is natural that Governments will seek to tax the sector more heavily.

- **From survival mode to sustainable strategy**

Financial institutions must resist the temptation to become completely reactive at the expense of longer-term considerations. At the same time, they must adjust to the realities of doing business in a world where the interest of multiple stakeholders – Governments and society in general – have become more important.

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**Notes to Editor:**

1. You can download a copy of *The Day After Tomorrow* [here](#) or contact [Zuzana Sehnalová](#).
2. PricewaterhouseCoopers ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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