Key industry findings from the 17th Annual Global CEO Survey

Priming your business for market transformation
Banking & capital markets industry summary

133

banking & capital markets CEOs in 50 countries across the world

56%

of banking & capital Markets CEOs believe the global economy will improve over the coming 12 months, compared to 19% last year

86%

of banking and capital markets CEOs believe that technological advances will transform their businesses over the next five years

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Summary

The global economic recovery continues to be fragile, but with immediate pressures easing. CEOs are feeling more optimistic and coming out of survival mode. In PwC's 17th Annual Global CEO Survey we set out to uncover how CEOs are searching for growth in a still-challenging environment. We surveyed 1,344 business leaders across 68 countries around the world, in the last quarter of 2013, and conducted further in-depth interviews with 34 CEOs.

Our survey sees a leap in CEOs' confidence in the global economy – but caution as to whether this will translate into better prospects for their own companies. The search for growth is getting more and more complicated as opportunities in both developed and emerging economies becomes more nuanced, leading CEOs to revise the portfolio of overseas markets they will focus on.

In 'Fit for the future: Capitalising on global trends', we also explore three forces that business leaders think will transform their business in the next five years: technological advances, demographic changes and global economic shifts. We show how these trends, and more importantly the interplay between them, are creating many new – but challenging - opportunities for growth through: creating value in totally new ways; developing tomorrow's workforce; and serving the new consumers. We also show how, in responding to these trends, CEOs have the opportunity to help solve important social problems. In short, the demands being placed on business leaders to adapt to the changing environment are increasing exponentially; CEOs are having to become hybrid leaders who can successfully run the business of today while creating the business of tomorrow.

Preface

This report is a summary of the key findings in the banking & capital markets sector, based on interviews with 133 banking & capital markets CEOs in 50 countries and in-depth interviews with Douglas Flint, Chairman, HSBC, Stavros Lekkakos, CEO, Piraeus Bank, Sergio P. Ermotti, Group Chief Executive Officer, UBS, Raul Baltar Estevez, CEO, Banco Exterior, Chanda Kochhar, Chief Executive Officer and Managing Director, ICICI Bank and Craig Donaldson CEO, Metro Bank. To see the full results of the 17th Annual Global Survey, please visit www.pwc.com/ceosurvey.

"Banking & capital markets CEOs are showing encouraging signs of optimism about the global economy. To position their organisations to take advantage of this growth, they can't afford to fall behind the accelerating pace of change in their marketplace," said Robert Sullivan, Global Banking & Capital Markets Leader at PwC.

"Industry leaders see technology, including the digital economy, social media, mobile devices, big data and other developments, as likely to have a transformational impact on their businesses over the next five years. More than 60% also pointed to the impact of global shifts in demographics and economic power. But most CEOs say they have yet to set in train initiatives to capitalise on these transformational trends in the key areas of talent, technology, distribution, data analytics, and innovation capacity. Many continue to cite the need to deal with regulatory upheaval as one of the factors that is making it difficult to deal with these longer term trends," he continued.

Mr. Sullivan believes that the organisations that will come through the shake-up in the strongest position to compete "will be marked out by leaders who can manage through uncertainty and complexity as they seek to deal with regulatory upheaval while preparing for the future. This in turn demands a clear sense of who their key customers and markets are going to be. It also requires a forward looking view on how regulation will interact with the other transformational trends they face and how these developments will reshape customer expectations, how they go to market and the talent, systems and organisational capabilities they will need to meet these demands."

Gearing up for growth

90%

More than 90% of banking & capital markets CEOs are looking ahead to revenue growth over the coming three years.

70%

Around 70% of banking and capital markets CEOs are concerned about slow or negative growth in developed markets and the impact of governments' response to fiscal deficits and debt burdens.

Last year's CEO survey portrayed a banking & capital markets industry that was beginning to turn the corner. This year's survey sees the economic rebound in a far more upbeat industry.

More than 90% of banking & capital markets CEOs are looking ahead to revenue growth over the coming three years. Fifty-six percent believe the global economy will improve over the coming 12 months, compared to 19% last year, making this one of the most confident sectors in the survey.

The buoyant outlook is reflected in the fact that more than half of banking & capital markets CEOs are planning to take on more staff over the next 12 months, with most of these anticipating headcount increases of at least 5%.

"It actually feels quite good," said Douglas Flint, Chairman, HSBC, when asked about how he sees the prospects for the global economy. "And the mood is better, the political mood is better, the business leader mood is better. And, well, let's just hope it's sustainable."

The renewed confidence extends to many of the economies most severely affected by the financial and sovereign debt crisis. "The banking sector has survived a crisis unlike any other and was shaken to its core. It is now in preparation for the 'new era' of the Greek economy, which will be measured against the yardstick of growth," said Stavros Lekkakos, CEO, Piraeus Bank.

But the upturn continues to be uneven and there are still considerable headwinds to contend with. Around 70% of banking and capital markets CEOs are concerned about slow or negative growth in developed markets and the impact of governments' response to fiscal deficits and debt burdens.

So where is growth going to come from? Rather than simply hoping to grow on the back of the economy, banking & capital markets organisations will need to make sure their strategies reflect the new realities of a market where customer expectations are being set by developments outside the sector and where customers are better informed, less loyal and readier to switch than ever. "Companies were based on very antiquated structures that worked in the past, but today the environment has changed, permanently," said Raul Baltar Estevez, CEO, Banco Exterior. "Many companies still think that when things change from an economic point of view and everything is fine again, they'll be able to operate in the same way. I don't believe that this will be the case. Many companies have realised it but many others haven't, so they'll have to go through that adaptation process."

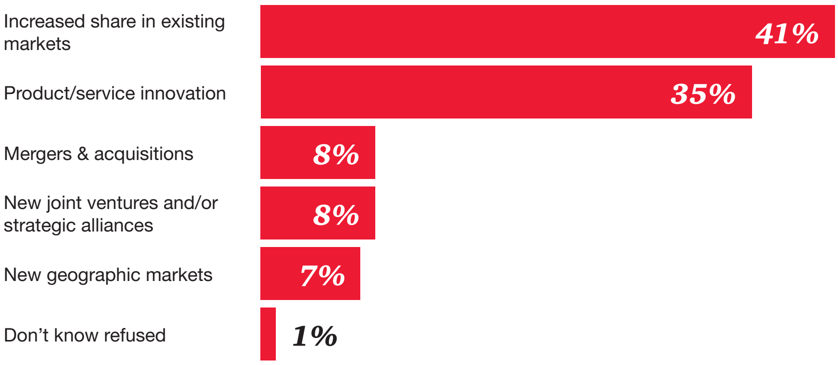
Industry leaders see building on their existing market share as the main opportunity for growth, with 41% putting this first (see Figure 1). But product and service innovation is close behind (35% putting it first), some way ahead of other financial services sectors. Both routes are likely to be crucial, with the ability to innovate, differentiate and build enduring customer relationships together forming the keys to market leadership.

Looking at things that can revolutionise our business, I think the most important of these is technology and the application of technology to our business.

Chanda Kochhar, Chief Executive Officer and Managing Director, ICICI Bank

Figure 1 Most important opportunities for growth

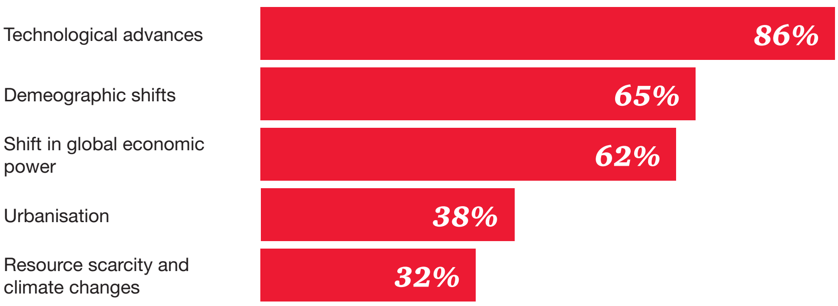
Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?



Base: All respondents (Banking and Capital Markets, 123)
Source: PwC 17th Annual Global CEO Survey
Percentages rounded so may not add up to 100

Figure 2 Transformational trends

Which of the following global trends do you believe will transform your business the most over the next five years? (Respondents ranking in their Top 3)



Base: All respondents (Banking and Capital Markets, 123)
Source: PwC 17th Annual Global CEO Survey

Preparing for a new world

So what are the drivers of this shake-up in the competitive landscape and what are the implications?

Technology

As Figure 2 highlights, banking & capital markets CEOs identified technological advances as the trend that's set to have the greatest impact on their businesses.

Technology touches everything in the evolving marketplace. Today's hyper-connected customers now expect the intuitiveness and responsiveness of digital retail from their banks and want to do business when they want and on the channel of their choice.

In turn, big data analysis and social media monitoring are enabling businesses to sharpen risk and customer analysis. The advantages include being able to tailor products to personal needs and shape the experience around personal preferences.

"Looking at things that can revolutionise our business, I think the most important of these is technology and the application of technology to our business," said Chanda Kochhar, Chief Executive Officer and Managing Director, ICICI Bank. "Things like the penetration of telecommunications in India, the penetration of cell phones, the penetration of the internet and internet on the move, are going to influence the banking habits of young consumers who are not just aspiring but also wanting to bank via electronic channels."

But the rapid shift in technology and associated customer expectations presents risks as well as opportunities. This includes opening the door to tech-enabled and data rich new entrants and putting even further pressure on often slow and unwieldy legacy systems within the banking & capital markets industry – nearly 60% of industry leaders see the speed of technological change as a threat to their growth prospects. The disruptive potential is exemplified by Alibaba, the Chinese e-trading portal, which recently launched instant loans for businesses, using their transaction record to gauge their credit score in a move designed to 'to stir things up' in the banking market[1].

1 'Billionaire Ma's Alibaba Gets Nod to Stir Up Loans: China Credit', Bloomberg, 15 July 2013 and 'Mobile banking players are shaking up China's cosy oligopoly', Deal Book, 10 October 2013

One step ahead of cyber threats

More than 70% of industry leaders see cyber insecurity as a threat to their growth prospects. The dangers were amply highlighted by the recent attack on the card readers of a major US retailer during the 2013 holiday season, which compromised approximately 40 million credit and debit card accounts.

Cyber security research carried out by PwC shows that compliance is still the biggest driver for information security spending in Financial Services[2]. But by simply following regulatory rules, institutions are never going to be able to keep pace with the constantly growing and changing cyber threats, as demonstrated by the aforementioned widespread cyber security breach.

Similarly, many still see cyber security as primarily a matter for IT rather than the business as a whole. But cyber security needs to be everyone's business, rather than just IT, if organisations want to keep ahead of the threats.

Key priorities include identifying and focusing resources on the 'crown jewels' most in need of protection. Institutions also need to carry out more frequent risk assessments to keep pace with the ever changing threats. Clearly, it's not possible to protect against everything, so a clear response and mitigation plan needs to be in place.

70%

More than 70% of industry leaders see cyber insecurity as a threat to their growth prospects.

Demographics

Nearly two-thirds of banking & capital markets CEOs identified demographic shifts as likely to have a transformational impact.

The opportunities to provide savings and investment services to help fund the retirements of a longer living population on the one side and meet the demands of a wealthier and more aspirational younger generation on the other are going to require smarter and more targeted customer segmentation and service delivery.

Demographic shifts are also going to affect growth as some leading economies have fewer people of working age. In turn, asset prices could be destabilised as retiring baby boomers sell their shares and downsize their homes to fund their retirements. Douglas Flint of HSBC highlighted the challenges: "The burden of an ageing population and the affordability of an ageing population and inter-generational equality and so on, how that plays through asset prices I think is something to reflect carefully on."

Shift in global economic power

The rapid growth in the banking and wider financial services markets of South America, Asia, Africa and the Middle East (together these regions form what PwC terms 'SAAAME') make them a keenly contested area for both international and domestic institutions. China and Brazil are in the top three markets targeted for growth by banking & capital markets CEOs – the other is a resurgent US. When the BRICS are stripped out, there is also a strong focus on Indonesia.

But alongside the growth potential comes the challenges of how to price risks and assets in markets where data may be limited and business practices may be unfamiliar. The underlying risks are organisational as institutions seek to develop the governance systems and flexible capabilities needed to operate across more extended lines of command.

2 'Fighting economic crime in the financial services sector', PwC, 2011

Resource scarcity and urbanisation
The transformational potential of urbanisation is surprisingly underplayed, as expanding cities are a huge opportunity for financial institutions; perhaps because most CEOs are focused on market growth. The impact of resource scarcity may also be under-estimated as it has the potential to change client and country risk profiles – we've already seen power stations have to close because of lack of available water, for example.

Slow to respond

Given the scale and accelerating pace of transformation in the marketplace, the survey responses raise concerns about whether banking & capital markets organisations are sufficiently prepared now or moving quickly enough to adapt.

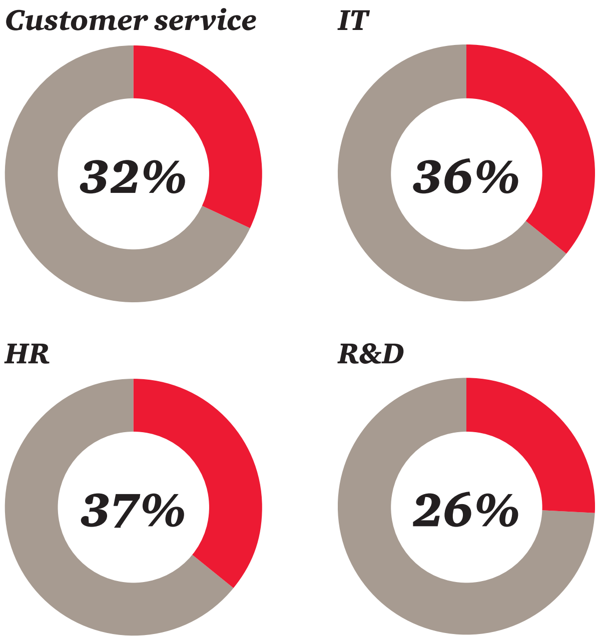
The customer service, IT, HR and marketing departments will all be closely involved in addressing global trends, but less than two out of five of banking & capital markets CEOs feel their teams are well-prepared for the task (see Figure 3).

When asked about progress in making the changes needed to capitalise on these trends, most industry leaders are starting to make plans. But less than 40% have actually begun initiatives to upgrade talent, technology, distribution, data analytics or innovation capacity (see Figure 4).

So what's making it difficult to move the business forward? The sheer scale of change is a clear challenge, but banking & capital markets has been in a near constant state of flux since the crisis.

Figure 3 How prepared is your organisation

To what degree are the following areas of your organisation prepared to make changes to capitalise on transformative global trends?



Well prepared | Somewhat prepared, not prepared, don't know or refused

Base: All respondents (Banking and Capital Markets, 123)
Source: PwC 17th Annual Global CEO Survey

Figure 4 Ready to capitalise on transformational trends

To capitalise on the transformational trends, to what extent are you currently making changes, if any, in the following areas? Respondents who stated change programme underway or completed

Base: All respondents (Banking and Capital Markets, 123)
Source: PwC 17th Annual Global CEO Survey

The scale of the regulatory changes being ushered in over a relatively short period of time "makes it very difficult to plan for the long term when things are still changing

Douglas Flint,
HSBC

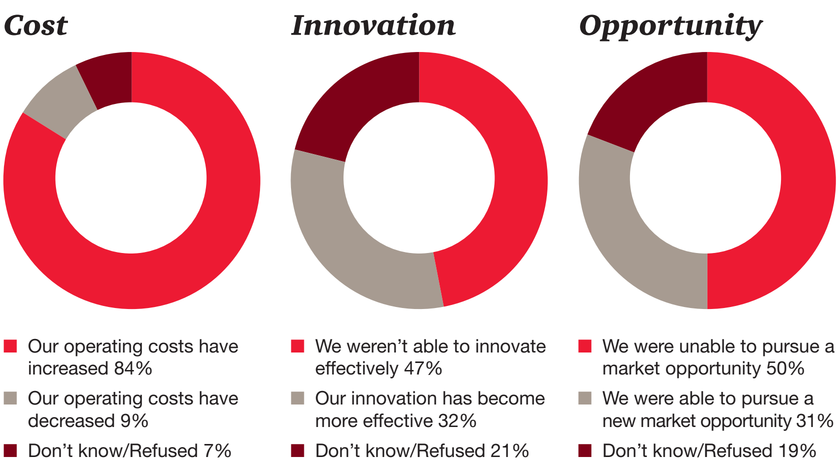
The need to contend with the influx of regulation certainly provides less time and investment to deal with the transformational trends. Eighty percent of banking & capital markets CEOs continue to believe too much regulation is impeding growth. As Figure 5 highlights, specific concerns about the impact of regulation include increasing operating costs, preventing them from pursuing a market opportunity or hindering their ability to innovate effectively.

Douglas Flint of HSBC believes that the scale of the regulatory changes being ushered in over a relatively short period of time "makes it very difficult to plan for the long term when things are still changing. Ultimately, you need to know what your business model is, and you need to know what the opportunity is to make returns on the capital you're going to be required to put into that business."

But with much more regulatory change in the pipeline, from further elements of Dodd-Frank to the introduction of the European Banking Authority, banking & capital markets organisations can't afford to wait until all the upheaval is over before responding to the fast changing market realities.

Figure 5 The impact of regulation

Which of the following statements most accurately describes how regulation has impacted your company over the past 12 months?



Base: All respondents (Banking and Capital Markets, 123)
Source: PwC 17th Annual Global CEO Survey
Percentages rounded so may not add up to 100

Moving the business forward

So how can banking & capital markets businesses deal with short-term hurdles while creating a competitive platform for the future?

1 *Seeing the future*

It will be important to look ahead to how customer expectations are going to evolve and what investments and changes in strategy, personnel, and operations are needed now to take advantage of the developments ahead.

2 *Bringing regulation into wider strategic rethink*

Banking & capital markets CEOs are moving toward a pragmatic stance about the best way to deal with changing regulation. Stability is now their key wish. Nearly 70% would like to see regulations that are clear and designed for the long-term, ahead of those who want less regulation (34%).

"And it would be good if somebody could articulate what the financial system ought to look like when all this has finished, and what the individual pieces of the system should be encouraged, or indeed charged, to do within that system," said Douglas Flint of HSBC.

It's also important to look beyond the immediate implementation demands at how regulation will affect costs, product profitability and the ability to compete. This will require a review and possible rethink of what business is viable and strategically core.

3 *Smarter use of capital*

The precision with which available resources are allocated will be a major determinant of future success. Making full use of the systems being developed for regulatory reporting to sharpen risk understanding and the targeting of capital is going to be crucial.

"Today, profitability is no longer just about the alpha and omega: equity capital is the crucial factor. Access to funding will become much more expensive and constrained. For that reason, the banking sector will witness numerous restructuring moves and changes that affect its business activities," said Sergio P. Ermotti, Group Chief Executive Officer, UBS.

4 Rationalisation and simplification

The proportion of banking & capital markets CEOs planning cost reduction initiatives (57%) is lower than last year. Does this suggest that much of the hard work is done? – probably not as more will be needed to remain competitive.

Reining in overly complex and convoluted operating structures and product portfolios built up before the financial crisis will be crucial in cutting costs, enhancing efficiency and strengthening operational oversight. “My view is the more you drive down complexity, the more you can drive up growth. So, including mortgages we’ve got about 12 or 13 retail products. That’s it,” said Craig Donaldson, CEO, Metro Bank.

5 A competitive culture

A culture of integrity, customer focus and risk-awareness is critical in re-engaging with customers and rebuilding stakeholder confidence.

There are clear competitive advantages for getting this right including better targeting of products, stronger reputation and more effective customer retention. Being able to demonstrate that risks are appropriately evaluated and managed across the organisation is also likely to result in less intrusive supervision and greater comfort for the board.

Our survey shows strong backing for a change in attitudes, approach and objectives. More than 70% of industry leaders believe that satisfying societal needs, balancing the interests of all stakeholders and protecting the interests of future generations are important to their businesses.

“I think business has to increasingly put itself in the shoes of its customers and say, what is the balance between the advantage that my product and service is giving to my customer and what is the advantage that accrues to me from providing it? And is that distribution of value appropriate? Is the asymmetry of information more to my advantage than my customer’s advantage? And if that is the case, you’ve got to ask yourself: is that right?” said Douglas Flint of HSBC.

6 The right talent

The need to respond to changing customer expectations is going to require people who are comfortable with big data decision making and can develop effective digital distribution capabilities. But limited availability of skills continues to be a concern, with 61% of banking & capital markets organisations seeing it as a threat to growth.

Equipped to compete

Banking & capital markets organisations are increasingly confident about growth, but recognise the challenges created by the transformational trends ahead. We believe there are five key questions they will need to address as they look to steer a successful course:

How can you get closer to customers and better understand their evolving needs?

Is your business nimble and innovative enough to deal with the rapid changes in in the marketplace?

How can you create the culture of integrity, innovation, customer focus and risk-awareness needed to re-engage with customers and rebuild stakeholder confidence?

What more can you do to rationalise and simplify your product portfolio and organisational structures to cut costs, enhance agility and efficiency, and strengthen operational oversight?

How can you begin to stabilise and simplify your regulatory reporting, risk and compliance activities to reduce barriers to growth?

Contacts

If you would like to discuss any of the issues raised in this report in more detail, please get in touch with me or your usual PwC contact.

Robert Sullivan
Global Leader
Banking & Capital Markets
+1 (646) 471 8388
robert.p.sullivan@us.pwc.com

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