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Significant changes afoot for global capital markets

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Bangkok--25 May--PwC Thailand

Global capital markets will undergo tremendous changes in the next five years, with Asia potentially developing financial centres that could rival London and New York, a PwC study says.

Global instability, advances in technology, regulations and more fragmented financial markets will determine the shape of industry worldwide in the next five years.

These changes are forcing players in the capital markets to engage a wider set of stakeholders, innovate faster and be more proactive.

The Capital Markets 2020: Will it change for good? report is based on a global survey of more than 250 capital market executives and industry leaders comprising both participants (investment banks, brokers, exchanges) and users (private equity firms, pension funds, insurance, non-bank financial intermediaries and corporations).

"With a fundamental shift taking place across the industry globally, we believe capital markets will be more important than ever in 2020," said Sira Intarakumthornchai, Chief Executive Officer for PwC Thailand.

"Capital markets will play an increasingly critical role in financing businesses, allocating credit and supporting economic growth.

"The need for infrastructure – whether it be airports, cities, rising urbanisation -- will create a huge demand for capital to build highways, runways and mass transit systems."

The top three challenges facing capital markets and their participants over the next five years are increasing profitability for clients (36%), adapting to new technologies (33%) and attracting and retaining talented employees (33%).

Capital market participants also need to expand client offerings, with 56% citing this as their top investment priority.

The report also found that 76% of surveyed executives anticipate a financial centre rivalling London or New York to emerge by 2020.

"There's a lot of expectation (among our surveyed executives) of a third major capital market centre arising in Asia to counterbalance these markets," Sira said. "We don't actually see that happening."

Instead, he expected to see more of a rise of multiple, second-tier financial services hubs such as Hong Kong, Shanghai, Tokyo and Singapore, none of which would become dominant like London and New York.

The report said that both cities will continue to lead the global financial ecosystem as they provide a combination of stability, transparency and rule of law against a backdrop of global instability, state-directed capitalism and a war for resources.

Liquidity pools will continue to aggregate in established global financial hubs, it said.

Executives are highly concerned by the threat posed by shadow banking players such as crowd funders and peer-to-peer lenders. Some 70% believe they pose a moderate to severe threat to traditional banks.

Of other major concerns of capital market leaders were the business impact of technology. Some 93% of surveyed executives say it's important for their organisations to use technology particularly big data and analytics as a tool to gain a competitive advantage and facilitate operational and regulatory changes.

"A flip side to this, however, will be cyber threats in financial markets," Sira said, citing the report that already predicted some potential disruptions either in the form of cyber terrorism or attack on financial infrastructures.

To emerge as winners, there are six priorities for 2020 that players in global capital markets need to confront and tailor their strategic response to now:

1. Proactively manage regulation, risk and capital
2. Establish stronger culture and conduct
3. Redefine the business model
4. Strategically renew the operating model
5. Enable innovation, and the capabilities to foster it
6. Obtain an information advantage

"These priorities will take many years to enact," Sira said. "Even though 2020 may seem far off, getting these in place and starting now to get them rolling is imperative."

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