



News release

Date	26 October 2020
Contacts	Marina Mello Mobile: +1 (441) 505-3127 Email: marina.mello@pwc.com
Pages	Two pages

PwC: Financial institutions set for once in a generation change

- FS sector likely to be hit hardest by 'second stage' COVID-19 impacts

Hamilton, Bermuda, 26 October, 2020 – The primary role of a traditional bank providing financing and capital is set to be challenged further by non-banks, according to PwC's report, ***Securing your tomorrow, today – The future of financial services***. The report predicts that alternative providers of capital are set to become an even more important part of the global financial system.

For insurers and asset and wealth managers, the challenges are equally daunting. PwC's report says that a combination of near zero interest rates and the rise of digital-only players will create tighter margins across product portfolios, thereby emphasising the need to digitise rapidly, gain cost efficiencies and register real gains in productivity.

Arthur Wightman, PwC Bermuda leader and Insurance leader, said: "While the financial services industry has stood up well in light of the pandemic, our report argues that it will be hardest hit by so-called second-order effects – deteriorating credit quality of customers, along with a continued low interest rate environment. The challenge for the financial services industry is in how they are able to navigate this difficult environment."

We've come to the end of a positive credit environment that lasted more than a decade, and we will see increasing numbers of both personal and business defaults, the PwC report says. This is already being reflected in first and second-quarter bank loan loss reserves. In addition, any hope of a medium-term normalisation of interest rates has been dashed as central banks have been forced to further reduce them.

For established financial institutions, the rise of alternative lending brings into question a bank's role as a capital provider versus an intermediary.

"This shift will have a significant impact on their business model," says **Sean Kelly, PwC Bermuda partner**. "Banks need to rapidly think about alternative ways to participate in the value chain as the industry migrates to a platform-based model."

In 2019, non-banks – including private equity funds and sovereign wealth funds – lent 41 trillion dollars compared to the 38 trillion dollars lent by traditional lenders. In particular, the analysis by PwC shows that private debt has seen substantial growth, which is set to propel the asset class into a significant category of non-bank lending. Since 2010, CAGR in private debt has risen 11%.

Scott Watson-Brown, PwC Bermuda Asset and Wealth Management leader, says: "The COVID-19 crisis brings many challenges and uncertainties, but with these challenges come opportunities for financial services institutions. Changes in the geopolitical setting, the structure of the global financial system and a difficult credit environment provide banks, insurers and asset and



wealth managers with opportunities to support clients in dealing with these challenges, adjusting portfolios and developing new investment opportunities.”

ENDS

Notes to editors

Data Sources: Bank for International Settlements, 2018/2019 Preqin Global Private Debt report, CFA Institute, Strategy& analysis

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

PwC refers to the Bermuda member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. See www.pwc.com/gx/en/about/office-locations.html for territories in which PwC member firms operate.

© 2020 PricewaterhouseCoopers Ltd. (a Bermuda limited company). All rights reserved.