

Financial services are set for transformation as their role, industry structure and commercial realities are disrupted by the major trends currently reshaping the global economy. Many businesses will be unrecognisable by the end of the decade and the list of market leaders could be very different as smart and agile players leapfrog slower moving competitors. Will your business model still be relevant in the new global economy? How can you take advantage of the shake-up ahead?

Project Blue

Assessing the future trends for financial services



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The financial services industry is at a watershed. While most organisations are finding it difficult to look beyond the current market turmoil, their survival and success will also depend on being able to deal with the longer term trends that are transforming the market and competitive landscape. These include the rise and interconnectivity of the emerging markets and state-directed approaches to economic development. Financial services businesses are also facing the impact of new technology, demographics, social change and mounting pressure on the world's most critical natural resources.

Introduction

Is your business model still viable?

Three years on from the onset of the financial crisis, financial services boards are working around the clock to deal with a whirlwind of regulatory upheaval and economic instability. The urgency to adapt to this complex and uncertain environment is leading to reactive short-term strategic responses within many financial services organisations.

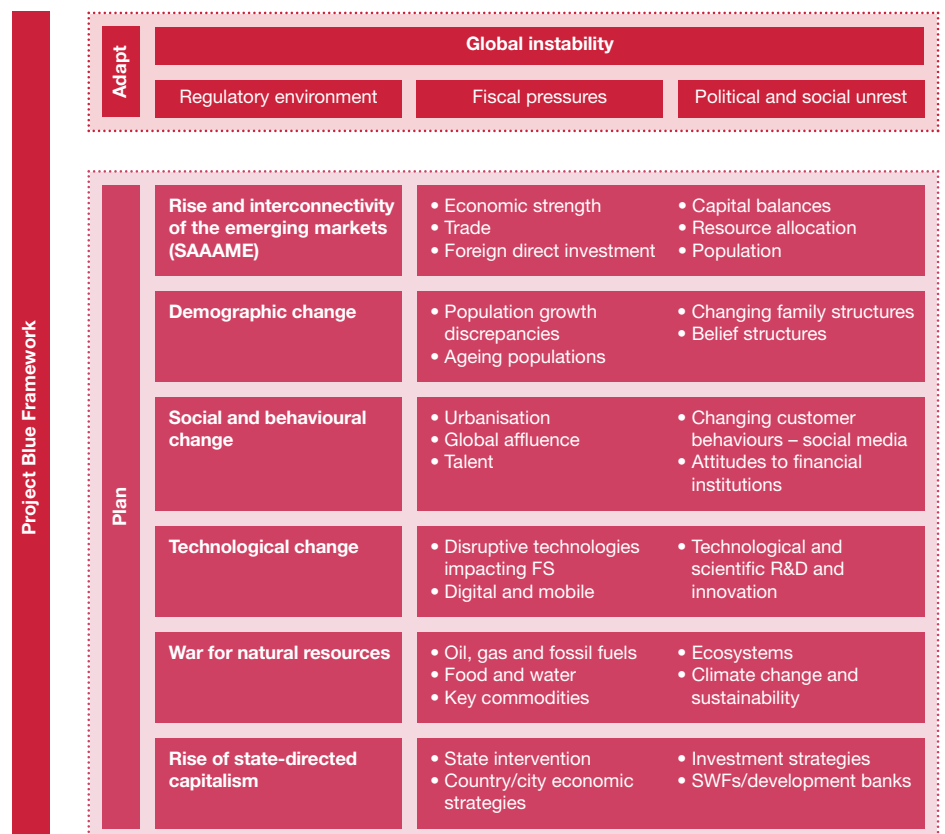
There has been little space left in the executive agenda to consider the long-term future. Few organisations have even begun to establish a clear vision of how their business will be effected by the more

fundamental and enduring changes ahead and how they can sustain competitive relevance in a rapidly evolving global economy.

Yet some forward-looking organisations are using the shake-up as an opportunity to redefine their strategies and business models, and take advantage of the once-in-a-generation opportunity when the competitive structure of their industries is relatively open to change. In times of change, the gap between high performers and low performers widens. Slower moving competitors could soon find themselves struggling to secure sufficient investment and overcome declining demand and profitability in many of their key markets.

Many industry participants (particularly in the West) are focused on adapting to global instability; however, the market is changing and opportunity exists for those who see it.

Figure 1: The Project Blue framework



Source: PwC Project Blue analysis

We believe that businesses which develop strategies and business models that adapt and profit from the current global instability, as well as position the business to ride the waves of change in the global economy, will not only succeed, but prosper.



Project Blue draws on the experience of the PwC global network and has been developed through interaction with financial services leaders around the world. It provides a framework to help industry executives organise their assessment of a world in flux, debate the implications for their business, rethink their strategies and, if necessary, reinvent their organisations. Seeing the future clearly, being first to adapt strategies and business models, and breeding a culture that shapes, rather than reacts to, the changing business environment will be the building blocks of sustainable competitive advantage in the future.

The Project Blue framework (see Figure 1 opposite) considers the major trends that are reshaping the global economy and transforming the behaviour of consumers, businesses and governments. These are the fundamental underlying drivers, but business opportunities may be defined by a combination of these trends.

For example, infrastructure finance is being driven by urbanisation, but this trend is occurring largely in emerging markets, raising issues around sovereign risk and the role of the state in economic development in these countries. Such opportunities can only be fully realised by rethinking approaches to risk, public-private partnership models and short-term versus long-term returns.

Rather than offering one way forward, the Project Blue framework is flexible enough to be applicable to all the many different organisations within the sector. The framework recognises that whether the drivers of change are threats or opportunities depends on the nature of your business and where in the world you operate. The results will help you to target investment, identify talent requirements and develop the necessary operational capabilities needed to make the most of your competitive potential.

In this introductory overview we describe the main drivers of change and the resulting considerations for your strategies and business models.


The new market realities

Adapting to global instability

Regulatory changes, fiscal pressures, and political and social unrest are creating an uncertain business environment. This instability makes the future of financial services difficult to predict. It also consumes a significant amount of management time by necessitating a focus on short-term optimisation and in some cases survival, at the expense of long-term strategy and execution. This unstable environment challenges traditional risk methodologies and has the potential to disrupt commercial models and organisational structures. The immediate challenge for your business is how to anticipate and adapt to global instability, rather than simply react to events.

Regulatory change

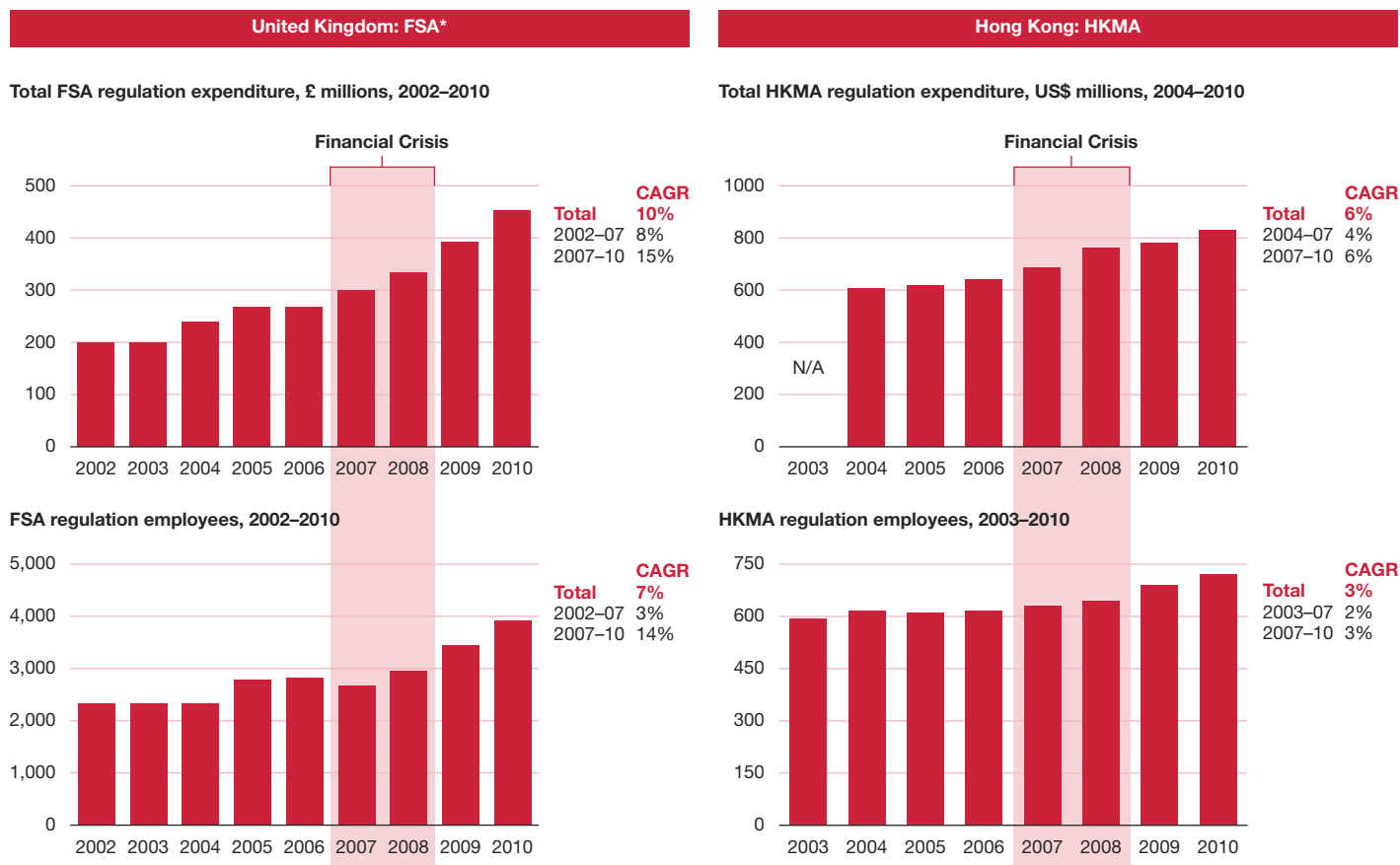
Regulatory change will be a way of life for the foreseeable future, driven by the requirement to better manage risk in the global financial system, public outrage following the financial crisis and political agenda this has engendered. The changes taking place are creating greater uncertainty and complexity now, and the prospect of further industry restructuring and unintended consequences ahead. While the reforms are still in the early stages of development, they will come to redefine the role of financial institutions and with it, their strategies and business models. It's vital to look beyond compliance to understand how these developments will effect product and business portfolios, how they will determine the allowable cost structure of your organisation and ultimately how they will influence the fundamental design of your organisation.



Regulatory change will challenge you to identify which areas of your business offer the greatest potential and to identify the core attributes on which to establish sustainable competitive advantage.

The intensity of regulatory oversight has increased as a result of the recent crisis.

Figure 2: Regulation expenditure and employees in the UK and Hong Kong



Sources: FSA, OCC and HKMA websites; PwC analysis
 Notes: The FSA is the Financial Services Authority, and the HKMA is the Hong Kong Monetary Authority, which are the main financial regulatory bodies for the UK and Hong Kong respectively; *The FSA's 12-month reporting period begins in April of the year reported

Fiscal pressures

Fiscal pressures are further undermining global financial stability by forcing some economies to the brink of default, threatening the solvency of weakened banks and making capital markets more volatile. Governments are implementing austerity measures and new taxes, which are likely to have a substantial impact on growth and profitability within the financial services sector.

Moreover, while emerging markets have experienced a credit boom, driven in part by supplies of Western credit, there are worries that instability within the global

financial system could affect or indeed undermine future lending.

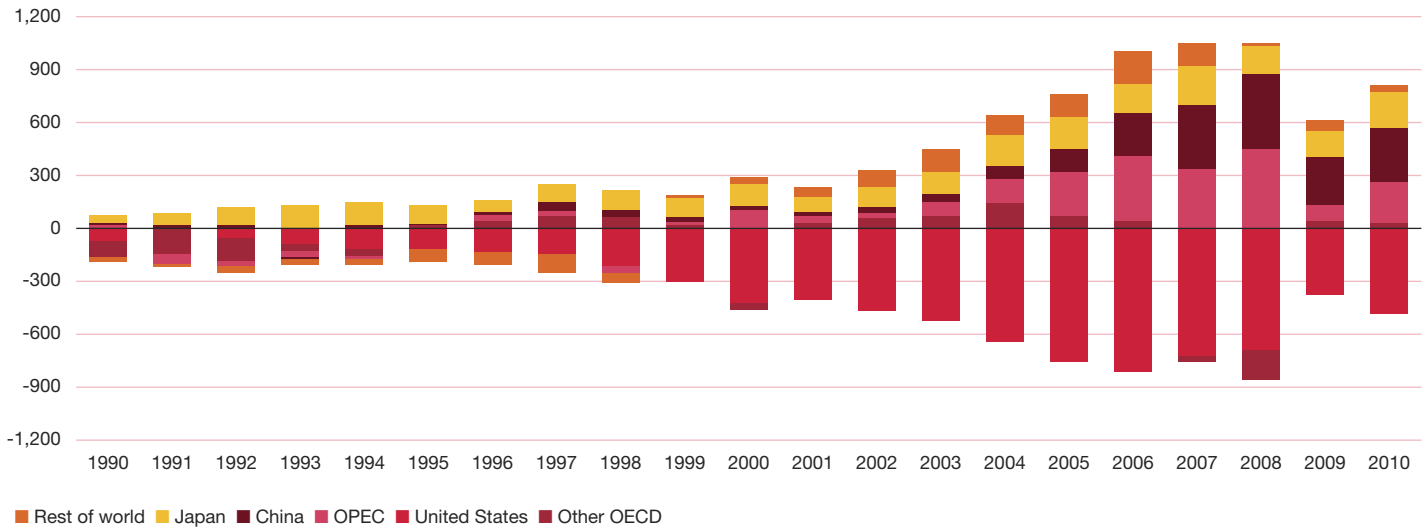
Political and social unrest

The world has become increasingly unstable in recent years. Factors ranging from corruption and repression to fiscal austerity, unemployment and rising food prices are igniting ever-more frequent social and political unrest. A further spur for this upsurge in protest and insurrection is the advent of social media, which is making it easier to communicate information, circumvent censorship and coordinate action.

Current account surpluses in China, Japan and the Middle East alongside deficits in the United States and Eurozone led to macro-imbbalances in the global economy.

Figure 3: Global current account balances, US\$ billions, 1990–2010

A current account balance (balance of payments) can be expressed as 1) the difference between the value of exports of goods and services, and the value of imports of goods and services, or 2) the difference between national (both public and private) savings and investment



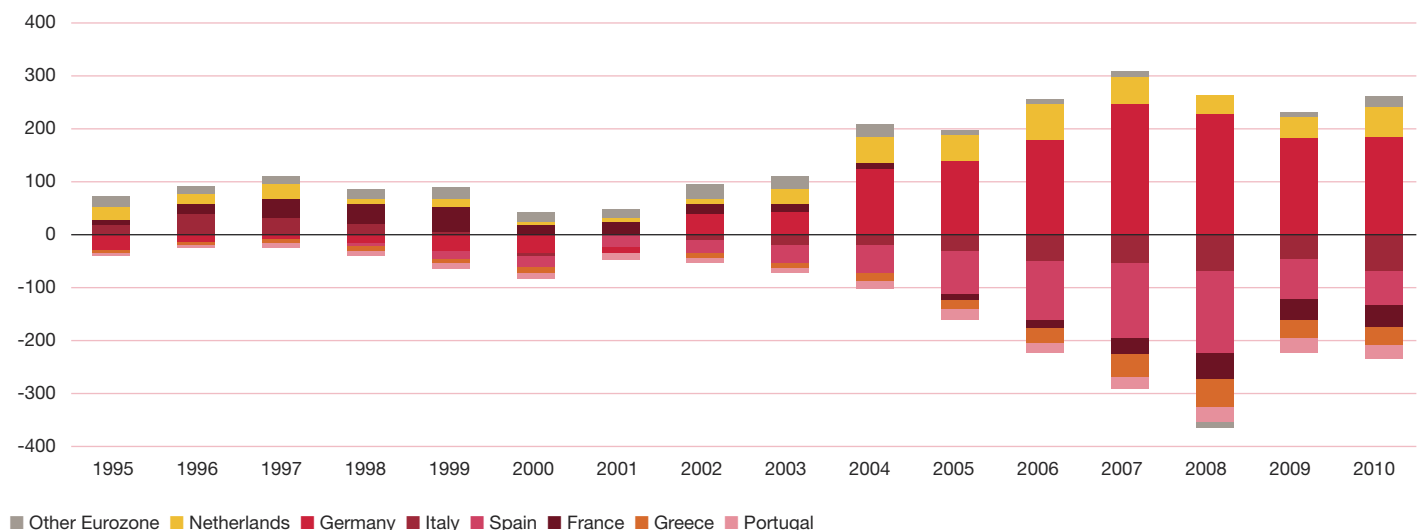
Sources: The Turner Review, FSA, 2009; IMF

Notes: OPEC is the Organization of the Petroleum Exporting Countries and members are listed in the appendix; OECD is the Organisation for Economic Co-operation and Development; for OECD countries see appendix; current account balance is defined by the IMF as the net transactions in all items other than the financial and capital items; the major classifications are goods and services, income and current transfers

Across the Eurozone, the gap between surplus countries (Germany and the Netherlands) and deficit countries (including Italy, Spain, France and Greece) grew.

Figure 4: Eurozone current account balances, US\$ billions, 1995–2010

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Sources: The Turner Review, FSA, 2009; IMF World Economic Outlook, September 2011

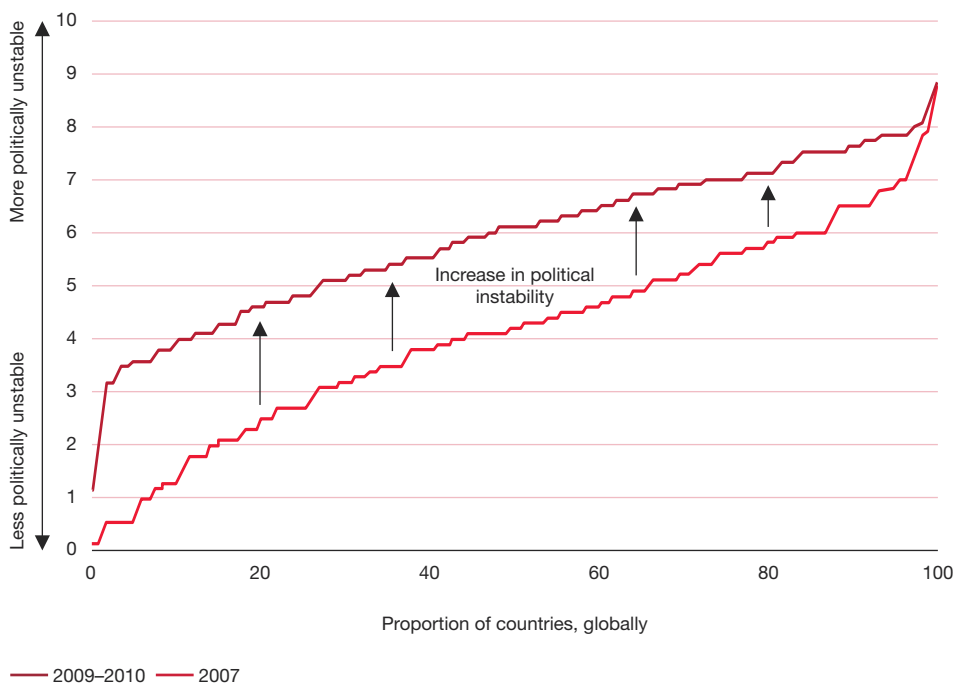
Notes: Current account balance is the net transactions in all items other than the financial and capital items; the major classifications are goods and services, income and current transfers



Your business will need to consider how heightened political instability could effect your risk profile, especially investments and operations in countries and commercial sectors that are potentially vulnerable to protest and unrest.

Over the past three years the world has become increasingly unstable.

Figure 5: A more unstable world – Political instability index,* by country, 2007 and 2009–10



Sources: Economist Intelligence Unit ViewsWire; PwC analysis
 Note: Index measured for 164 countries; *The political instability index represents the level of political instability in a country, with a greater value indicating that the country has greater instability. The chart shows the global change in political instability between 2007 and 2009/10. It plots the index against the proportion of countries with that score. For example, in 2007, around 45% of countries had a score greater than 5 while in 2009/10, around 75% did, indicating greater levels of political instability in 2009/10

Planning for transformation

The rise and interconnectivity of the emerging markets

The focus of global growth has shifted. Western economic dominance is a relatively recent phenomenon and the developments we see are essentially a rebalancing of the global economies.

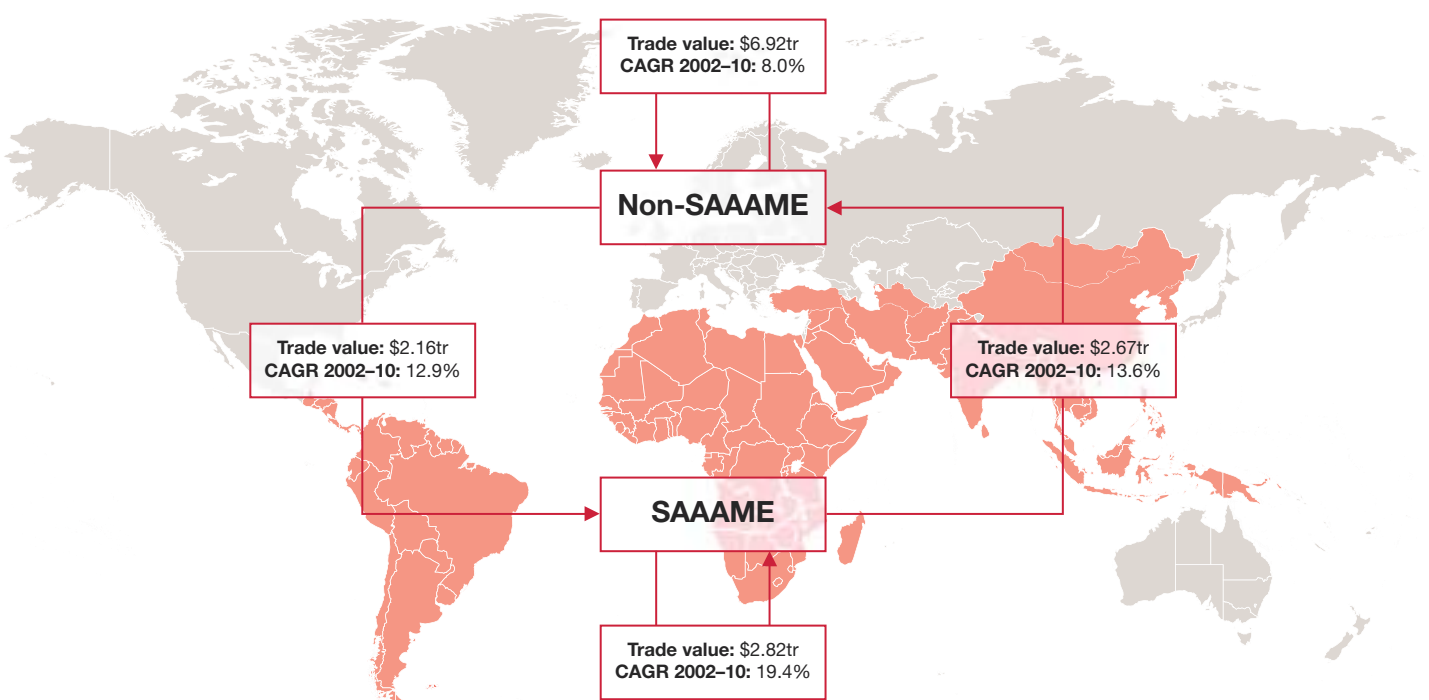
While many commentators are focusing their attention on what are considered to

be the largest and fastest growing BRIC markets (Brazil, Russia, India and China), the commercial potential is far greater than these countries alone.

Along with the growth and size of the emerging markets, it's important to appreciate the interconnectivity of the trade and investment flows between them, which are growing much faster than the traditional routes from developed-to-emerging and developed-to-developed countries (see Figure 6). Indeed, South America, Africa, Asia and the Middle East (SAAAME) are emerging as an increasingly interconnected trading zone, which, in physical terms at least effectively bypasses the West.

South America, Africa, Asia and the Middle East (SAAAME) are emerging as an increasingly important network for international trade.

Figure 6: World trade flows, SAAAME and non-SAAAME, US\$ trillions, 2010



Sources: WTO; PwC analysis

Note: Russia and the Commonwealth of Independent States (CIS) have not been included in SAAAME definition because trade is largely international and/or with Europe. Mexico is excluded as it trades mainly within the North American free trade zone and less with SAAAME. Both areas remain very important growth markets and should be considered in relation to the SAAAME region.



Our latest research anticipates that domestic credit in China could overtake the US by 2023 and India will become the third largest domestic banking sector after China and the US by 2050.²

The SAAAME region covers a significant proportion of the world's land surface and has access to many of its natural resources. It also has substantial manufacturing capabilities and access to the labour to support this, large and growing consumer markets, and a sizeable pool of both educational establishments and well-educated professionals. Its significant liquid investable capital includes a growing (albeit slowly) proportion of global assets under management (AUM) and nearly 80% of overall sovereign wealth fund AUM.¹

To make the most of the opportunities for growth, your business will need to contend with rising consumer expectations in these markets, a more complex risk environment and the growing battle for talent. As an increasing amount of emerging-to-emerging market commerce misses out the West altogether. Western institutions also need to find ways to tap into business flows they may never physically see.

SAAAME financial institutions

Success will depend on being able to develop your organisational skills to keep pace with the growth of SAAAME markets, to build the customer-centric model needed to keep pace with consumer expectations, and to construct business models and partnerships that are relevant to the markets you serve. You also need to work out how to attract and retain scarce talent when competitors and companies from other sectors are looking to lure your best people away.

Western financial institutions

The opportunities are evident, but regulation and local competition are making it increasingly difficult to penetrate SAAAME markets. Success will depend on being able to deliver products and capabilities that domestic players cannot do and being sensitive to the realities of doing business in these countries.

¹ Sovereign Wealth Fund Institute, 2010 and PwC analysis

² 'PwC, Banking in 2050', 2011 update



The number of people aged over 65 in Japan, Italy and Spain is forecast to be 60% of the total working age population (15–64) by 2050.⁴

3 United Nations Department of Economic and Social Affairs, August 2011

4 World Population Prospects The 2010 Revision, Volume I: Comprehensive Tables, United Nations, 2011; PwC analysis

Demographic change

Your customers and their demands are changing. Population growth and decline in different countries, combined with an ageing population around the world, will create a markedly different consumer market by 2050.

In some European countries, the working population will decline by more than 10%³ and this gap will need to be filled by immigration, later retirements and productivity gains, which could be accelerated by growth of the digital ‘machine-to-machine’ economy.

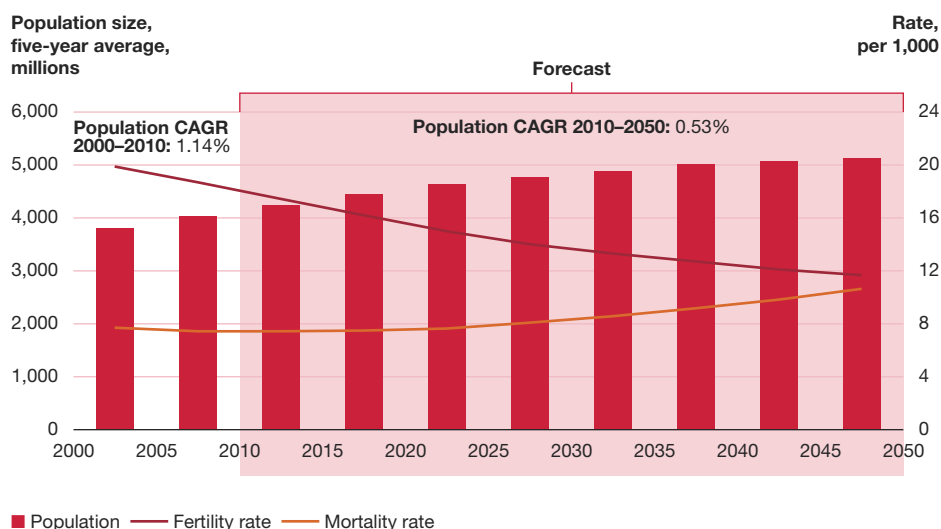
While much has been made of the impact of ageing in the Western world, the most dramatic changes will be seen in emerging markets as birth rates and life expectancy around the world begin to converge (see Figure 7).

Your business will need to anticipate demographic developments and bring products and services into line with the changing customer base in the markets you serve.

As people live longer and state support declines, the competitive frontline will likely shift from lending towards helping people to fund and manage their retirements. Reputation and trust will be crucial in sustaining market share in an increasingly empowered and knowledgeable retirement market.

In Asia, population growth is forecast to slow as mortality and fertility rates converge.

Figure 7: Asia, total population against mortality and fertility rates, 2000–2050



■ Population — Fertility rate — Mortality rate

Sources: United Nations Population Division
 Notes: Mortality and fertility rates are the number of births and deaths per 1,000 population; population size based on UN population figures for 2000–10 and medium variant projections for 2015–50; five-year population figures calculated using average across the five years; population forecast by UN using estimated population at 1 July 2010 and assumptions for mortality, fertility and net migration rates

Social and behavioural change

Social and behavioural change is occurring at a faster pace than at any time in history.

Consumers are more informed and empowered than ever before, and old notions of value and loyalty are breaking down as digital technology allows them to both compare value and expand their choices. Continuing digital transformation is also changing the way people interact, share ideas and access products and services, with social networking now making up one in six minutes of time spent online.⁵

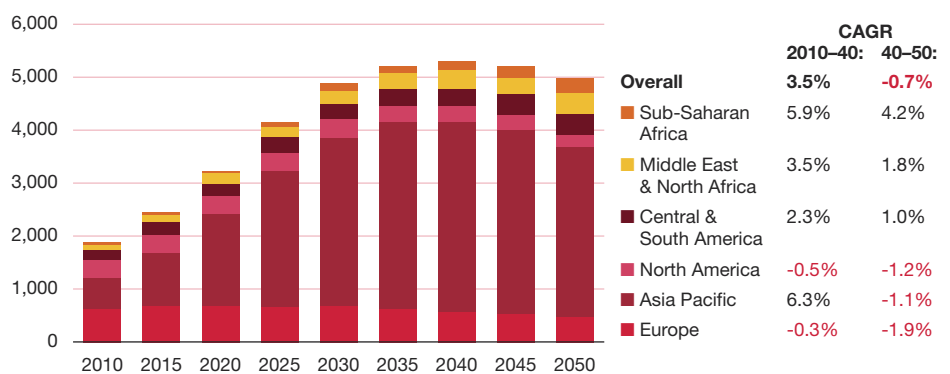
In emerging markets, increasing affluence and urbanisation are creating new and expanding markets for financial institutions. City dwellers' average wealth and demand for financial products and services are generally much higher than their rural counterparts. Indeed, some observers now see the real distinction in the financial services sector as not emerging and developed markets, but rather city and rural areas.

How your company responds to these social and behavioural changes could define your market position for decades to come, providing a once-in-a-generation opportunity to put clear distance between you and your rivals if you judge the implications correctly and a mortal threat if you don't. The key differentiator will be the ability to anticipate where the market is going on the back of these changes and get in ahead of your competitors. Experience in the travel and music industries suggests that companies that are slow to grasp the implications of change could be quickly marginalised.

Over the next 30 years the urban population is forecast to grow by almost 1.8 billion people. Most of this urbanisation is expected in Asia and Africa, increasing the world's urban population to 5.6 billion⁶ and creating one of the most important competitive battlegrounds for financial services businesses.

The global middle class is forecast to grow by around 180% between 2010 and 2040. Asia is expected to replace Europe as the region with the highest proportion of the global middle class by 2015.

Figure 8: Forecast size of middle class, by region, millions, 2010–2050



Sources: European Environment Agency; OECD Development Centre; PwC analysis
 Notes: Data is forecast and was last uploaded by the European Environment Agency on 29 November 2010; middle class is defined as households with daily expenditures between USD10 and USD100 per person in purchasing power parity terms

⁵ ComScore, July 2011

⁶ United Nations, Department of Economic and Social Affairs, Population Division, 2009 Revision

More than 40% of people using social network sites in the US are interested in interacting with financial services firms via Facebook and MySpace.⁷

Technological change

Technology has always shaped society and commerce in unpredictable ways, changing customer behaviour, spawning new enterprises and wiping out existing businesses that are unable to keep pace. As the speed of technological development accelerates, the risk of falling behind becomes more acute.

Breakthroughs in biotechnology, nanotechnology and other frontiers of research and development (R&D) are increasing productive potential and opening up new investment opportunities. Whole new industries are being created, which could have a significant impact on the size and shape of the world's manufacturing, and high-tech sectors and the companies that operate within them. The key question for your business is: 'Are you ready and able

to support and capitalise on these developments?' These emerging technologies and the industries they generate also carry a new set of risks, which need to be fully understood if you are to make the most of the financing opportunity.

In the digital world, the internet, mobile phones, data analytics and cloud computing are well established. Yet, many companies across all sectors are still grappling with how these developments will affect consumer expectations, the way they interact with their customers and the underlying business models that support this.

While the transformational impact of digital technology has been slower to reach financial services than other fields of commerce, the sector has finally

reached a tipping point. Enhanced digital interaction would offer your business the opportunity to engage more closely with its customers and increase wallet share. At the same time, digital transformation could be highly disruptive, allowing new entrants to break into the banking market, pick off the most valuable revenue opportunities and seize control of customer relationships. In a digital world, it will be harder for your business to differentiate itself, especially if service expectations are set by non-financial competitors. The ease of switching afforded by digital technology could also drive down margins and profits. Some organisations could be strained to breaking point.

The demand for branchless banking is significant in all segments of the population, regardless of geography.

Figure 9: Income split of those who currently use a mobile to purchase financial services, all geographies*, 2011



Sources: PwC Digital Tipping Point Survey 2011; (Based on approximately 3,000 responses) PwC analysis
Notes: *Geographies surveyed were United Kingdom, United Arab Emirates, Poland, Mexico, India, Hong Kong, France, China and Canada

The ‘war’ for natural resources

The expanding size and prosperity of the global population is leading to rapidly rising consumption and putting unsustainable pressures on the world’s most critical natural resources.

Even basic commodities such as water are now in increasingly short supply, providing the spur for the development of new markets, technologies and investments on the one side and the potential for unrest, commercial disruption and protectionist behaviour on the other. The growing shortages of

resources will be exacerbated by climate change, heightening catastrophe risk and putting further pressure on land, water supplies and food production.

The ‘war’ for natural resources is likely to play out on multiple fronts. Examples include the response to the increase in water withdrawals, which are forecast to rise dramatically. Food production will naturally gravitate to more plentiful sources of water, which may be outside a country’s border and therefore extend the supply chains of and potential cost of food production.



In turn, demand for energy is forecast to increase by around a third by 2030.⁸ While alternative energy sources will gain market share, the overall global demand for oil, gas and coal is forecast to remain strong, particularly as technology transforms currently uneconomic sources of oil.

Globalisation is creating global supply chains that are tying countries together through trade as never before. China and other manufacturing-based economies depend on emerging markets in Africa and South America to supply their industries. Conducting business in some of these countries is likely to require new investment models and fresh approaches to understanding and mitigating risk.

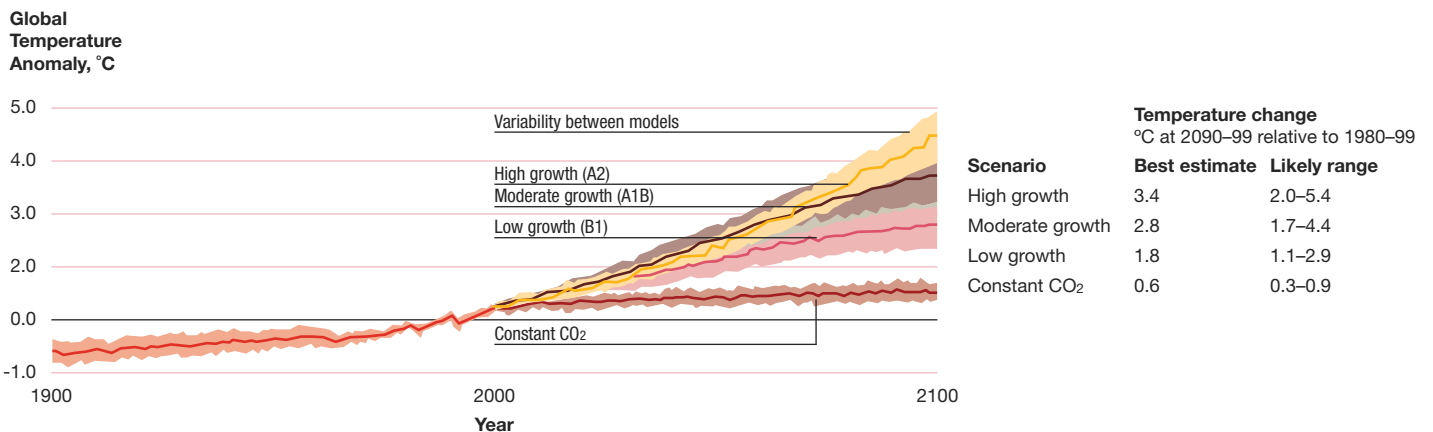
Economic disparities are likely to spur short-term responses in production and consumption that undermine long-term sustainability. Shortages could cause social and political instability, geopolitical conflict and irreparable environmental damage.

The war for natural resources and the impact of climate change are phenomena that will have a fundamental impact on the way people live and companies do business. It's likely to become one of the main, if not the key driver of, government policies. It will also open up new markets and business models for organisations that both understand the changing dynamics of supply and demand, and know how to mitigate the risks.

As environmental risk increasingly impinges on clients (examples include higher resource costs, pollution damage and changes in productive land), your business will need to assess the impact on your loan book, risk profile and investments.

Global scientific consensus is that temperatures could rise between 2°C and 5°C by the end of the 21st century.

Figure 10: Model simulations of global warming by the Intergovernmental Panel on Climate Change



Sources: Intergovernmental Panel on Climate Change Fourth Assessment Report: Climate Change 2007, NASA Earth Observatory
Notes: Surface warming is relative to 1980–1999

The impact of global temperature rises could be extreme.

Figure 11: Possible climate impact of a rise in global temperatures (Stern Review)

Temperature rise	1°C	2°C	3°C	4°C	5°C
Water	Small glaciers in the Andes disappear completely, threatening water supplies for 50 million people	Potentially 20–30% decrease in water availability in some vulnerable regions	1–4 billion more people suffer water shortages, while 1–5 billion gain water, which may increase flood risk	Potentially 30–50% decrease in water availability in Southern Africa and Mediterranean	Possible disappearance of large glaciers in Himalayas, affecting one-quarter of China's population and hundreds of millions in India
Food	Modest increases in cereal yields in temperate regions	Sharp declines in crop yield in tropical regions (5–10% in Africa)	150–550 additional millions at risk of hunger (if carbon fertilisation weak)	Agricultural yields decline by 15–35% in Africa	Continued increase in ocean acidity seriously disrupting marine ecosystems and possibly fish stocks
Health	Reduction in winter mortality in higher latitudes	40–60 million more people exposed to malaria in Africa	1–3 million more people die from malnutrition (if carbon fertilisation weak)	Up to 80 million more people exposed to malaria in Africa	
Land	Permafrost thawing damages buildings and roads in parts of Canada and Russia	Up to 10 million more people affected by coastal flooding each year	1–170 million more people affected by coastal flooding each year	7–300 million more people affected by coastal flooding each year	Sea level rise threatens small islands, low-lying coastal areas (e.g. Florida) and major world cities such as New York and London
Environment/ Ecosystems	80% bleaching of coral reefs, including Great Barrier Reef	High risk of extinction of Arctic species, including polar bear and caribou	20–50% of species facing extinction (according to one estimate)	Loss of around half Arctic tundra	
Abrupt and large-scale impacts	Atlantic thermohaline circulation starts to weaken	Potential for Greenland ice sheet to begin melting irreversibly, accelerating sea level rise and committing world to an eventual 7 m sea level rise Rising risk of abrupt changes to atmospheric circulations, e.g. The monsoon Rising risk of collapse of West Antarctic Ice Sheet and Atlantic thermohaline circulation			
		Low growth scenario		Higher growth scenarios	

Source: Stern Review, 2006

Water stress is often localised. For example, within the high population areas of the North China Plain, aquifers are reported to have depleted significantly. The North China Plain is home to around 10% of China's population and includes the cities of Beijing and Tianjin.⁹

⁸ International Energy Agency 'International Energy Outlook 2011'

⁹ World Bank China 'Agenda for Water Sector Strategy for North China', April 2001

The rise of state-directed capitalism

The pendulum swing away from the free market towards state-directed capitalism in the wake of the financial crisis is manifesting itself in governments' increasing direction of financial services and the wider economy. Governments are also becoming more competitive in the way they vie with other states for talent, investment and the primacy of key financial, industrial and other productive centres in the countries they govern.

Payback for support

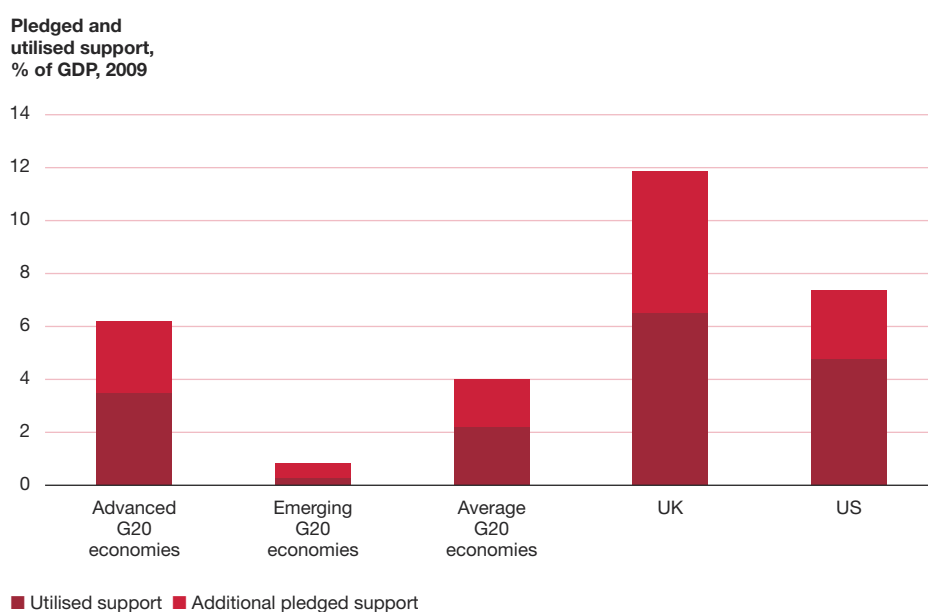
Western governments have spent considerable sums to stabilise their financial systems. Greater state intervention and pressure on financial institutions to support the real economy (e.g. through increased bank lending to small businesses) are likely to be a key part of the 'payback' required.

Greater intervention is the payback for the bailouts

Profitability and growth are likely to be more dependent on the fortunes of the real economy than before the financial crisis, which will in turn be more closely tied to government policies.

The high public cost prompts many Western governments to take a more active role.

Figure 12: Costs to governments of supporting the financial sector, percentage of GDP, as at December 2009



Sources: A fair and substantial contribution by the financial sector, IMF, June 2010

Notes: Data based on International Monetary Fund (IMF) survey sent to all G-20 members in December 2009



PPP investment around the world rose from US\$50 billion in 2002 to US\$170 billion in 2010.¹⁰

As such, it will be important to work with industry and consumer groups to help influence and shape government policies. It will also be important to develop a strong relationship with government to make sure your strategy anticipates and is aligned to government priorities and investment plans. Globalisation is intensifying the competition between countries and cities. Local leaders are ever more aware of their sources of competitive advantage and how to attract the businesses, facilitate investment in infrastructure and the secure supply chains needed to make the most of this potential. As cities expand and develop, local and central government face the challenges of how to attract the necessary investment in housing and infrastructure while balancing the inevitable strains on natural resources.

Many governments, particularly in the SAAAME states, realise that the private sector cannot finance and deliver important national economic and social priorities on its own. As a result, we're likely to see an increase in Public-Private Partnerships (PPP), particularly in emerging markets, as well as government-to-government agreements to mitigate sovereign risks, mobilise sovereign capital and piece together industry supply chains.

¹⁰ World Bank, Infrastructure Database, data extracted from database on 30 November 2011; PwC analysis

Disruption to long-established business models is the one clear certainty that the future holds. The key question is whether the various forces shaping the sector present an opportunity or a threat to your business.

Taking control of your future

Being able to see into the future and judge the implications will give you an invaluable edge. Project Blue is designed to provide you with a framework for organising your views of the global developments ahead, the implications for your business and your resulting vision for the future.

Coming through stronger

As we've developed Project Blue, we've spoken with business leaders around the

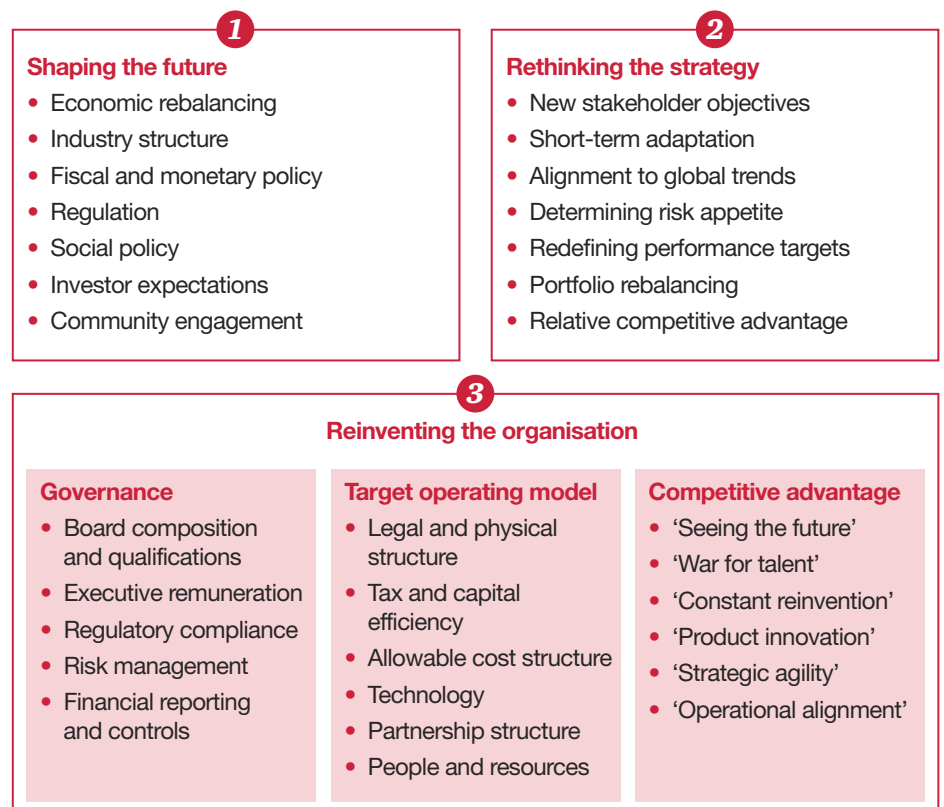
world to assess how these drivers will affect them. Drawing on these discussions and our research into the impact of the main forces of change, the graphic (see Figure 13) highlights the key areas that boards will need to assess and address as they look to sustain and sharpen competitive relevance.

Shaping the future

It's vital that your business plays an active part in the debate over the changes ahead. This includes engaging as closely as possible with clients, regulators, governments, consumer and community groups, and other key stakeholders to

Project Blue assesses the impact of these changes on all aspects of the leadership agenda.

Figure 13: The CEO agenda



Sources: PwC analysis

make sure the full impact is understood and help get important messages across to policymakers – ultimately driving an improved financial system for all.

Rethinking your strategy

The pressing challenge for all organisations is how to balance the adaptations needed to deal with the current instability with the longer term changes in strategy, operations and business focus demanded by the drivers identified in Project Blue. Your business can gain significant market share if it adapts to the reforms and changing commercial realities faster than your competitors.

Reinventing your organisation

At the heart of sustainable commercial models are the organisational capabilities and flexibility needed to identify and respond proactively to changing customer and market demands. Operations will need to become more agile to accommodate changing conditions. Risk and finance teams also need to become more proactive in managing a rapidly changing and often uncertain risk and regulatory environment. Organisational and people strategies will be key differentiators in determining which businesses are most relevant going forward.

As the CEO agenda highlights, the underlying considerations include what kind of leadership is required in this complex and uncertain environment, how your risk profile is likely to change, and what kind of governance and reporting systems will be required to plot a successful course through the changes ahead.

The businesses that come out on top will have a superior capacity for innovation and constant reinvention, agile enough to quickly capitalise on emerging opportunities and with the strategic approach to talent needed to make sure that the right people are available in the right places at the right time. If your business is constantly scrambling to keep pace with unfolding events, it's going to find itself on the back foot competitively and risks losing out.

A reshaped sector

Dealing with the mega-trends highlighted in Project Blue can't be put off while you contend with seemingly more immediate concerns. Some developments such as the increase in regulation, state intervention and possible protectionism that form part of the rise of state-directed capitalism are already manifesting themselves. Others, such as the increasing ageing and urbanisation of emerging market populations and their impact on product and growth strategies are moving rapidly onto the horizon. How you plan and invest now will determine your future chances of success.

So how will strategies change and what kind of financial institutions will emerge from the shake-up ahead?

SAAAME financial institutions

Many emerging markets remain relatively under-penetrated and have considerable room for further development in both the size and sophistication of the financial services sector. Traditional models are still viable in these markets, but new partnership models with telecommunications and retail companies to reach the unbanked will continue to grow. Your business will need to keep pace with steadily increasing customer expectations and associated changes in the regulation, complexity and risk profile of your operations. The pressing priorities also include the need to engage in the 'war for talent' to make sure your organisation can develop the right skills to meet the challenges and seize the opportunities in your markets.

Western financial institutions

The constraints on funding and domestic growth will make it increasingly difficult to be all things to all people ('ubiquity'). Successful institutions are therefore likely to adopt a more ruthless focus on their core relationships and sources of value ('precision'). We're already seeing sharper customer segmentation, greater discipline in deploying resources and withdrawal from markets that offer little prospect of delivering an economic return. This is underpinned by a better understanding of component costs and real returns.

The key considerations are: *'What exactly are my core sources of value, who will be my most important customers and who will be my main competitors in ten years from now?'* – in short, continually re-evaluating what you need to do to ensure your business model remains relevant.



Making sense of an uncertain future

We're working with a range of financial services organisations to facilitate discussions on the impact of the mega-trends shaping their industry and where and how they can compete most effectively. If you'd like to discuss any of the issues raised in Project Blue, please contact those listed below, or your usual PwC contact.



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