

# ***Project Blue 2.0:*** Redefining financial services

August 2015



Blue 2.0: Redefining financial services explores the eight core issues that are transforming the financial services landscape

Blue 1.0: Global trends

Project Blue framework

ADAPT	Instability and uncertainty ?			
	Regulation	Fiscal policy	Monetary policy	Political and social stability
PLAN	Rise and interconnectivity of the emerging markets (SAAAME) ⚙️			
	Demographic change 🌐			
	Social and behavioural change 👥			
	Technological change 📱			
	War for natural resources ⚡			
	Rise of state-directed capitalism ↻			

Blue 2.0: Redefining financial services

8 core issues

1. Rebuilding trust
2. Industry redefinition
3. The direction of regulation
4. New face of the customer
5. SAAAME financial systems
6. Tipping point economics
7. Financial institution reinvention
8. Risk and uncertainty

The FS sector 2020 series



Blue 2.0: Redefining financial services

The 8 core issues

1

Rebuilding trust:  
From confrontation to common purpose

Financial system and government:  
5 unifying goals

- Financial stability and conduct
- Economic development
- Social progress
- Tackling of tax evasion, corruption and terrorism
- Sustainability

↓

The financial institution's purpose

?

⚙️

🌐

👥

📱

⚡

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2

Industry redefinition:  
The impact of technology

Transition to a new industry model

- Business redefinition: From products to quality of life services
- Customer supremacy
- New competitive structure
  - Industry consolidation among traditional players
  - Proliferation of competitors (FinTech, shadow banking, non-financial sector companies)
  - Disappearing industry boundaries
- Destruction of traditional operating and earnings models
  - Restructured value chains
  - Payments and funding without banks
  - Machine to machine economy
- Information as the new battleground
- Innovations in currency
- New sources of risk

🌐

👥

📱

↻

3

The direction of regulation:  
Complex, costly, constant

For financial institutions...

- 5–10 years of regulatory reform
- Complex, costly and constant
- Regulatory nationalism

↓

Regulator and customer-centric organisation

- Re-engineered processes
- Culture change
- Compliance efficiency

For regulators...

Long-term vision

- Role of the financial sector in economic development
- Consistent long-term goals
- Scope of regulation

Organisation

- Governance models
- Skills
- Mastering the impact of technology
  - eBanking regulation
  - Market innovation
  - Real time and predictive supervision tools
  - Data quality and analytics
  - Cybersecurity

4

New face of the customer:  
The power to punish

New definition of customer

- Customers, companies, communities, machines
- Information suppliers
- Co-developers of product

New powers

- Destruction of old pricing models
- Repricing some value propositions to zero
- Instantaneous comparison
- Knowledge
- 'Zero' switching costs

New expectations

- Digital commerce definitions of service, obsoleting old metrics
- Predictive customer engagement (direct current to alternating current analogy)

?

⚙️

🌐

👥

📱

Global trends

5

SAAAME financial systems:  
Disciplined development

In a multipolar world

- Emergence of megacities
- Financial centres as cornerstones of city strategies
- Growth of local capital markets
- Orderly development of national financial systems

Unique national conditions

- Economic, political, social forces at work
- Quality of public institutions

Priorities

- Enhance the quality of banks
- Establish financial system stability
- Enable healthy financial sector evolution
- Ensure the financial sector contributes to the real economy

7

Financial institutions:  
Reinvention

Attributes

- Digitised
- Customer-/regulator centric
- Fast, flexible and innovative
- Flat, lean and partnered
- Skills-driven
- Compliant

Building blocks

- Purpose and mission
- Vision of the future
- Clear strategies: market, cost, risk, innovation
- Sustainable earnings model
- Core skills
  - Customer engagement
  - Data analytics
  - Information-enabled decision-making
  - People
  - Partnering
  - Execution capability
- Operating model
  - Leadership and culture
  - Digital processes
  - Structure and roles
  - Partners

6

Tipping point economics:  
Forcing change

Profit pools under siege

1. Regulatory impact

- Capital and liquidity requirements
- Restructuring costs
- Market conduct
  - Transparency and fair value pricing
  - Fines relating to investigations
- Cost of compliance
- Customer acquisition costs

2. The market

- Customer power
  - Information explosion and transparency
  - Machine aided decision optimisation
  - Frictionless switching
- Competition
  - Competitive intensity
  - Obsolescence of price/value models
  - Digital cost structures
- Revaluation of the value chain

New sources of value

- Information monetisation
- Digital services businesses
- Digital valuations

8

Risk and uncertainty:  
New realities

Growing sources of risk

Disruptive competitors

Financial terrorism

Cyber crime

Strategic risk

Political interference

Reputation (driven partly by conduct)

Bigger Consequences

- Increasing regulatory fines
- Greater precedents for legal action
- C-Suite personal liability
- Scarcity of financial support

Changes to Business

- A new regulatory environment
- Different competitive landscape
- Changing margin equation
- Earnings model obsolescence
- Market illiquidity
- Electronification of sales channels

New risk paradigm

Attributes

- Insight into emerging risk (horizon scanning)
- Agility
- Connecting-the-dots
- Partnering with the business (to optimise risk/return)
- Efficiency

Enablers

- Risk vision and strategy

Organisational design and alignment (front-to-back and cross-functional)

Risk process efficiency

New risk analytics (predictive models, improved pricing, etc.)

Strategic risk technology (real-time, single source data, on-demand, etc.)

People, culture and behaviours

Using regulatory change as an opportunity

Update on key trends

Regulation

- Ongoing debate over the role of the financial system and requirements for long-term financial stability
- Regulation reform to continue to play out over the next decade
- Shift from prudential to conduct regulation
- Domestic agendas to take precedence over international harmonisation
- Scope to extend to all companies that deliver financial services
- Tougher regulation of foreign institutions

Political and economic uncertainty

- Global economy still feeling the aftershocks of the crisis
- Unprecedented focus on tax revenues and tax evaders to relieve fiscal pressures
- Governments seeking to balance personal, corporate and indirect tax policies
- Austerity measures triggering changes of government or government policy as people react against the pain of austerity
- In a connected global economy, conflicts in the Middle East, Eastern Europe, or a slowdown in the Chinese economy continue to create uncertainty about the future

Technology

- Disrupting the cornerstones of the financial system
- Transforming regulation in terms of scope, supervision and compliance
- Creating the all-powerful customer and giving him/her the power to punish
- Launching new competitors and redrawing industry boundaries
- Destroying traditional price/value propositions and challenging the traditional earnings' model
- Moving the basis of competition from historical to real time and predictive outcomes
- Redefining the nature of currency
- Transforming operating models and organisations
- Making cybercrime a major risk category

Urbanisation

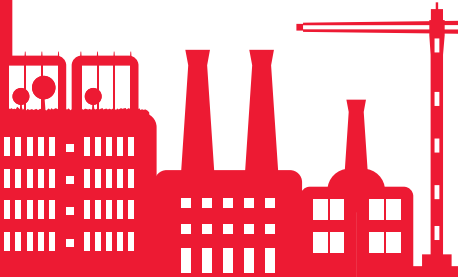
- By 2050, 67% of the world's population will live in urban areas
- Large cities becoming the economic engines of many countries
- Dual-track economies within national economies between the large cities and the rest of the country
- Location of the new middle class, concentrating wealth in cities
- Major investments in urban infrastructure to compete
- Not all cities to succeed, some to fail

Social change

- Customer-centric and mobile world
- Accelerating pace of change
- Digital natives 47% of the population in 2020
- Usable information 20 times today in 2020
- Fundamentally changing relationship with the customer in terms of engagement and value/price expectations

Maturing of SAAAME

- Cracks beginning to show in the growth prospects of the SAAAME economies
- Looks to the West for lessons, not models
- Government and regulatory bureaucracy, corruption and the immaturity of political institutions undermining the growth potential of these economies and creating risks not covered by adequate returns
- The rise of strong domestic financial institutions, restricting the growth of foreign institutions





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## ***In summary***

***Financial institutions must embrace a customer- and regulator-centric world to shape their future and prosper.***

***They should do this by defining their purpose and building on the goals of regulation, the power of technology, the creativity of people and the value of brand.***

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## ***Contacts***

*If you would like further information on the issues raised here please contact us.*



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