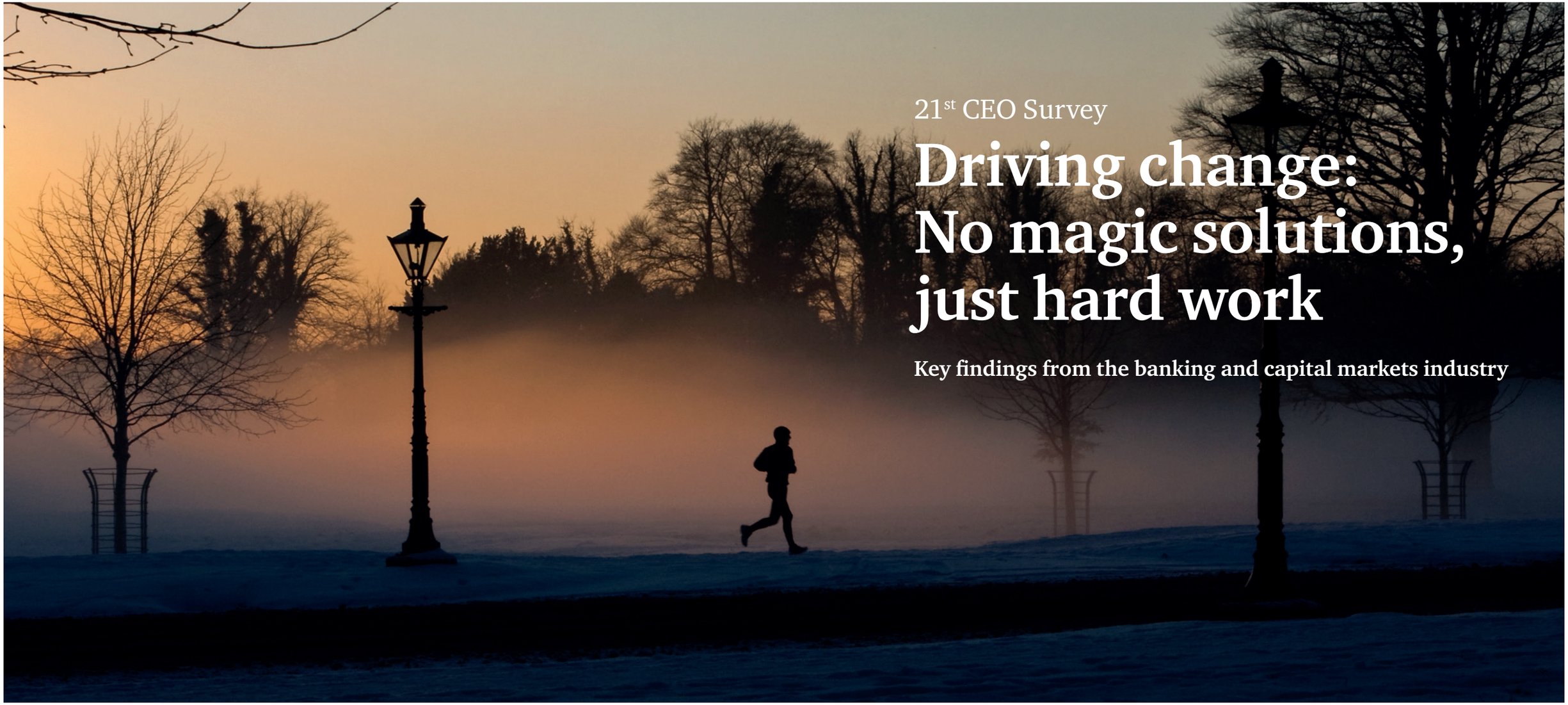

21st CEO Survey

Driving change: No magic solutions, just hard work

Key findings from the banking and capital markets industry

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Introduction

Banking and capital markets (BCM) CEOs find themselves in a "good but not great" mood this year, according to results from PwC's 21st CEO survey. More than half report being bullish about economic growth – 57% believe the global economy will improve over the next 12 months, compared to 30% the year earlier. Yet that economic optimism hasn't translated into increasing confidence in their own prospects.

The percentage of CEOs who report being "very confident" about their companies' ability to boost revenue growth during the next 12 months and over the next three years both edged lower when compared to a year ago. What's more, they are less confident in that fact than the average CEO over the next 12 months.

The lukewarm outlook is likely a reflection of industry returns that, while rising, are still below targets in most developed markets.

Some BCM organisations are, of course, faring better than others. As the PwC's 21st CEO Survey findings underline, the big differentiator is digital transformation, and

38%

of BCM CEOs are 'very confident' about their companies' ability to boost revenue growth over the next 12 months, down from 40% the year before

45%

of BCM CEOs are 'very confident' about their companies' ability to boost revenue growth over the next three years, down from 48% the year before

the breakthrough innovation and growth boost that stem from it. Organizations that get this right will find opportunities to positively transform the customer experience and put space between themselves and competitors.

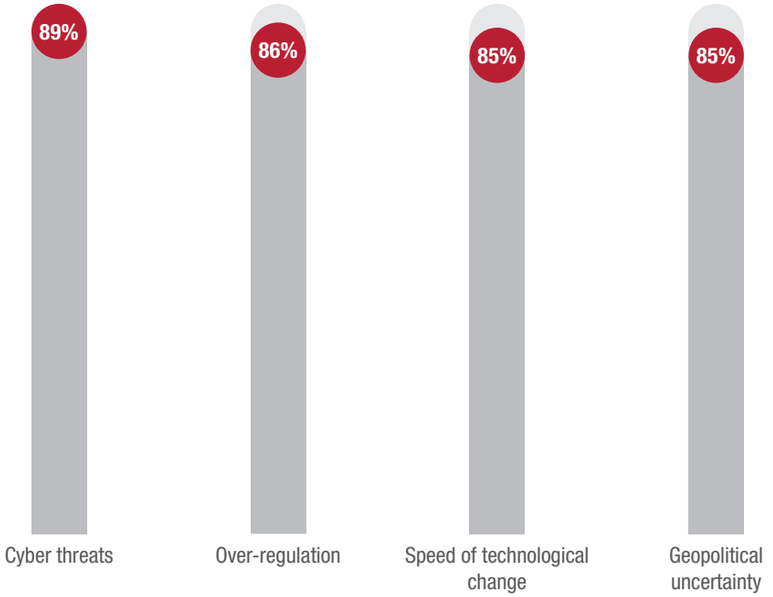
Driving this type of change is proving exceptionally challenging, however. In fact, the speed of technological change is now on the list of worries that are most likely to keep BCM CEOs awake at night, along with over-regulation (see exhibit 1). And as the work BCM organisations have done over the past decade to implement the regulatory overhaul has shown, there are no quick solutions to implementing such complex and far-reaching changes to an organization.

Exhibit 1

What's keeping banking and capital markets CEOs up at night?

Q How concerned are you about the following threats to your organisation's growth prospects?

Chart shows percentage of banking and capital markets CEOs stating 'extremely' or 'somewhat concerned'

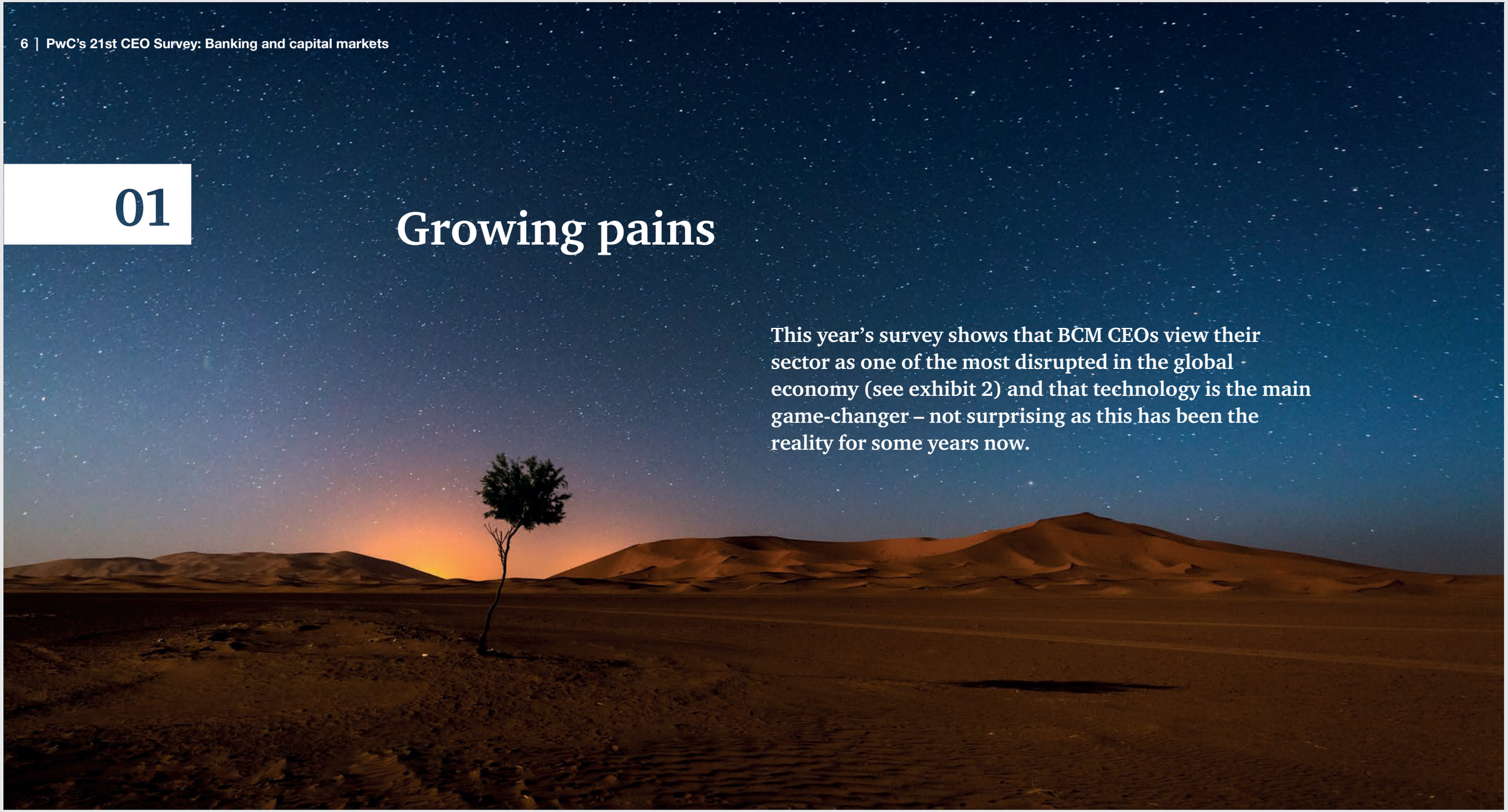


Source: PwC's 21st CEO Survey, Banking and capital markets

Many BCM organisations that have tried to bring in technologies such as robotic process automation (RPA), blockchain, and artificial intelligence (AI) without streamlining and rationalising their core processes have quickly come undone. Technology can't reinvigorate innovation and returns without new ways of working (e.g. human/machine collaboration) and a rethinking of how to connect with clients, including business and capital markets as well as retail customers.

With this in mind, BCM organisations face a long and tough road ahead. But it is a path they must take, or risk the competition leaving them behind.

David Hoffman
Banking and Capital Markets Leader
PwC US



01

Growing pains

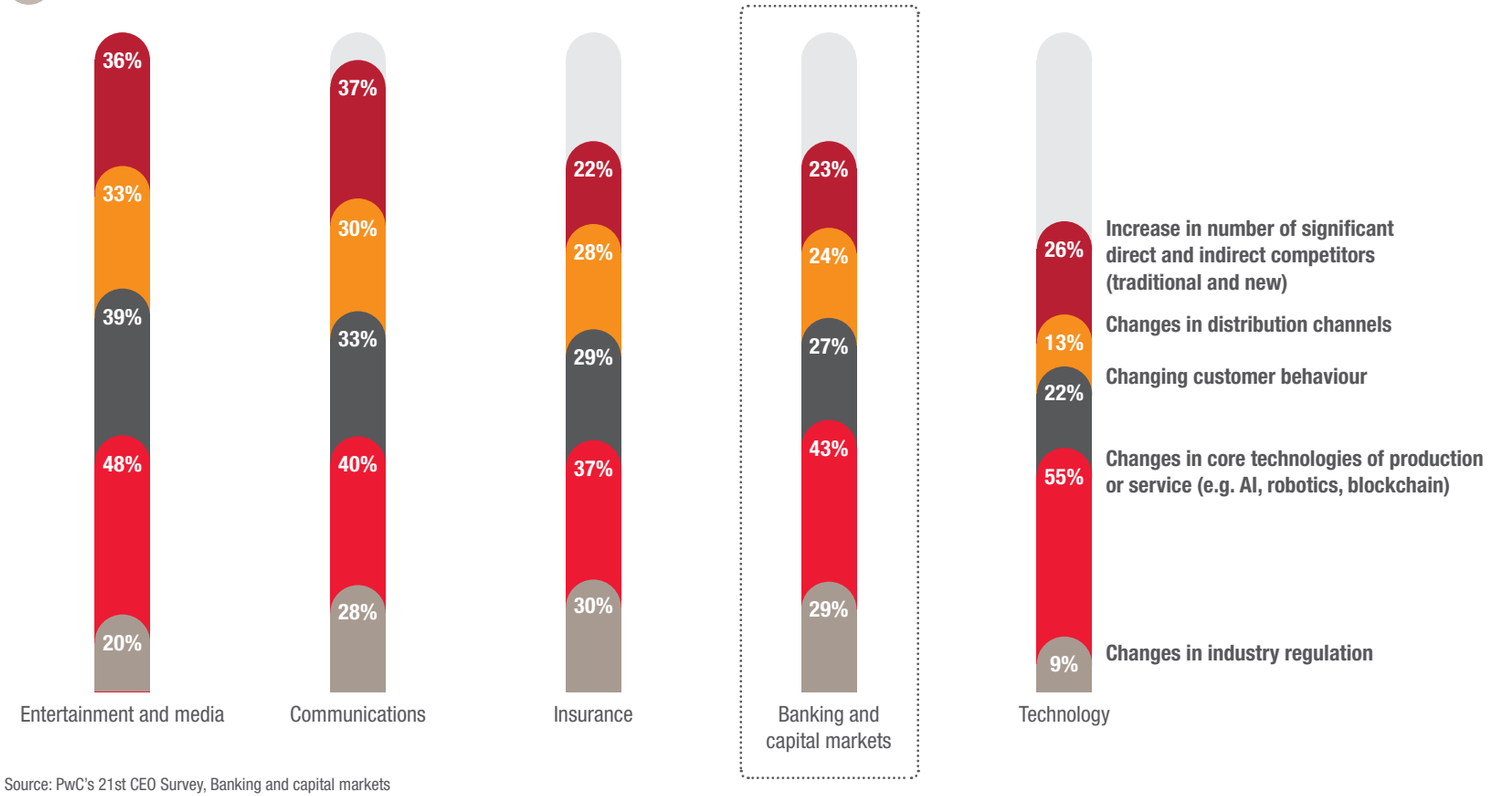
This year's survey shows that BCM CEOs view their sector as one of the most disrupted in the global economy (see exhibit 2) and that technology is the main game-changer – not surprising as this has been the reality for some years now.

Exhibit 2

Banking and capital markets CEOs report existing in one of the most disrupted sectors

Q How disruptive do you think the following trends will be for your business over the next five years?

Chart shows percentage of banking and capital markets CEOs stating 'very disruptive'



Source: PwC's 21st CEO Survey, Banking and capital markets

What's more revealing, however, is the status of the other disruptors: the relatively low level of perceived disruption coming from new competition would suggest that the heat from FinTech is easing. Rather than a potential rival, FinTech businesses are coming to be seen as a valued source of innovation and talent.

The disruption brought by changes in customer behaviour, however, are very much on CEOs' radar: 81% expect it to be either very or somewhat disruptive to their business over the next five years. This goes hand-in-hand with another big worry: changes in core technologies. More than three quarters (76%) of CEOs reported thinking that changes in core technologies of production or service provision (e.g. artificial intelligence, robotics, blockchain) will be either very or somewhat disruptive to their business over the next five years. Addressing changes in customer behaviour can't be done successfully without first dealing with the technological disruption that drives them.

Harnessing automation, blockchain, and AI will enable BCM organisations to drive down costs, but also serve more customers well, optimise trading strategies, and target valuable new segments. Already some investment banks are using advanced technologies to reach into retail markets and services that would once have been reserved for large corporates. In turn, sharper "customer intelligence" (CI) allows BCM organisations to target and tailor solutions more precisely than ever. Eventually, as data proliferation overwhelms human comprehension and customer expectations become ever more exacting, digital transformation could offer the only way to keep BCM businesses in the game.

The big challenge, of course, is figuring out how to organise processes and procedures in order to capitalise on the digital potential. It's generally not the technology itself that creates the difficulties – systems are becoming more powerful, more intuitive, and easier to implement and use. Rather, most of the problems stem from the familiar old snags of process fragmentation and IT incompatibility. Unless these deficiencies are sorted as part of a digital transformation, no amount of investment can deliver real benefits.

Capitalising on digital potential is also as much about talent as tech – people, rather than systems, drive innovation and realise its full commercial potential. As the study's findings highlight, attracting digital talent is notoriously hard. Less than 20% of BCM CEOs say they see it as easy. While much of the current focus is on bringing in app developers, robotics engineers, and other specialists, it's just as important to ensure that tech awareness permeates the entire organisation, including senior leadership.

It's also important to consider how to organise talent as humans and machines begin to work so closely as part of a hybrid workforce. Most BCM CEOs say they are still trying to work out how to make the most of the collaborative potential. When thinking about their people strategy for the digital age, less than half (44%) say they are clear about how robotics and AI can improve customer experience, for example.

44%

of CEOs say they are clear about how robotics and AI can improve the customer experience

Leaders must also realize the common anxieties surrounding automation and AI. These include consumer reluctance to be served by a robot instead of a human and what some see as the risk of market fluctuations from high-speed algorithm-based trading. Within the workforce itself employees may be concerned about losing jobs to automation or resist new ways of working. When asked whether they are creating transparency around the effects of automation and AI to help build trust within their workforces, two-thirds of BCM CEOs said yes, and a further 10% say they plan to do so in the next 12 months. However, more than 20% aren't addressing this issue and have no immediate plans to do so.

02

Building trust

CI, in which companies use data management platforms to compile information profiles about customers with the aim of targeting goods and services better, is emerging as the key to revenue growth and profitability. But BCM organisations are finding it difficult to win the trust, let alone the love, that makes customers so ready to share their data with their mobile, social media and search engine providers. To that end, the fact that only 60% of BCM CEOs see a lack of trust as a threat to their growth prospects is worrying.

Assuring customers that their interests come first is clearly crucial in winning this trust, even if this comes up against conflicting priorities such as sales targets. Tellingly, there are already signs that businesses that have used the US Department of Labor fiduciary rule as an opportunity to strengthen customer trust are seeing higher returns.

It's vital to assure customers that their data will be secure, used responsibly, and, indeed, imaginatively. The importance of secure, sensitive, and beneficial management of data and the stakeholder trust that surrounds this was highlighted in PwC's 20th CEO Survey. More than three-quarters of the BCM CEOs in that study said they believed that "how we manage people's data will differentiate us," but "it's harder to gain and keep trust" in an increasingly digitised world. A full 96% also said that to some degree or to a strong degree they believed that breaches of data privacy and ethics will have a negative impact on stakeholder trust over the next five years and are addressing the issue as a high priority. This year, 82% of BCM CEOs say they are creating transparency in the usage and storage of data as part of their efforts to strengthen consumer trust.

The importance of cyber protection to customer trust underlines the extent to which cyber threats are a strategic rather than just an IT risk. Little wonder then that nothing is more likely to keep BCM CEOs awake at night: 54% of CEOs said they were extremely concerned about cyber threats, while 35% said they were somewhat concerned.

93%

of BCM CEOs are investing more heavily in cybersecurity

Customer-focused cybersecurity demands a balance between appropriate control and the ease and speed of multichannel service that retail and corporate clients have come to expect. This, in turn, means building cyber security into both the overhaul of the customer journey and enterprise risk management (ERM). Developments such as the EU's General Data Protection Regulation (GDPR) make the need for more proactive safeguards, better coordination, and more systematic response plans even more pressing. And it is the CRO who should be taking the lead.

Compliance is also at the heart of stakeholder trust and the ability to capitalise on growth opportunities. Lapses don't just risk regulatory sanctions, but also damage reputations.

At the same time, the need to free funds for investment in innovation and growth mean there can no longer be a blank cheque for compliance costs. Therefore, there needs to be both efficiency and effectiveness, and cost and control.

Emerging RegTech solutions could provide an important part of the answer by not only stripping out costs in labour-intensive and duplicative areas such as 'know your customer' (KYC), but also strengthening risk management and improving the reliability of compliance. But, again, it is difficult to realise the benefits without also rationalising fragmented systems, processes, controls, and reporting lines.

03 The way forward

Clearing away the barriers and getting transformation on track is clearly a daunting task. And unlike a FinTech start-up, established BCM firms won't be able to start with a blank sheet of paper. That's why clear direction and firm foundations are so vital.

While every business has different starting points, there are three key building blocks for driving change:

Drive transformation from the top. This includes a clear strategic assessment of the competitive pressures within the market and a plan for how to respond. BCM firms can then identify the priorities for re-engineering, the operational pain points that automation and AI could address, what opportunities are opened, and where to focus investment.

Think digital first. There is no such thing as a digital transformation strategy anymore, only a strategy for the digital age. Front-runners ensure that digital capabilities and digital innovation are at the heart of all business plans and initiatives, from new product launches to process efficiency drives.

And this isn't just about technology – talent, marketing, and culture are all going to need a review and possible rethink. It's important to ensure that any strategy for transformation reflects these considerations.

Smooth the transition. Clearly the demands of transformation must be balanced against the need to the keep the lights on in ageing legacy systems. But BCM organisations can't continue to rely on slow and unwieldy capabilities when less-expensive and more-efficient alternatives are available. It's therefore important to look for opportunities to simplify, selectively decommission, and shift legacy systems over to the cloud/SaaS. Increased deployment of application programme interfaces (APIs) would also allow businesses to quickly plug-and-play new components and FinTech capabilities.

Making major changes without breaks in service can be difficult. Potential solutions include creating fully modernised capabilities in one go, such as a digital bank. Once the capabilities are developed, tested and refined, the clients using previous systems can be moved over to the new platforms.

Conclusion

It all comes down to a lot of hard work. But the opportunities for breakthrough innovation are immense. Those out in front are already capitalising on cost savings and closer customer engagement, which is boosting returns and putting slower moving competitors under increasing pressure. As transformation accelerates, the front-runners' ability to create a genuinely differentiated offering gives them a critical competitive edge, boosts long-term returns, and helps make them a magnet for investment.

21st CEO Survey Methodology

PwC conducted 1,293 interviews with CEOs in 85 countries. Our sample is weighted by national GDP to ensure that CEOs' views are fairly represented across all major countries. The interviews were also spread across a range of industries. Further details by region and industry are available by request. Eleven percent of the interviews were conducted by telephone, 77% online, and 12% by post or face-to-face. All quantitative interviews were conducted on a confidential basis.

The lower threshold for all companies included in the top 10 countries (by GDP) was 500 employees or revenues of more than US$50 million. The threshold for companies included in the next 20 countries was more than 100 employees or revenues of more than $10 million.

- 40% of companies had revenues of $1 billion or more.
- 35% of companies had revenues between $100 million and $1 billion.
- 20% of companies had revenues of up to $100 million.
- 56% of companies were privately owned.

Notes

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- The base for figures is 1,293 (all respondents) unless otherwise stated.

We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the fourth quarter of 2017. Their interviews are quoted in this report, and more extensive extracts can be found on our website at ceosurvey.pwc.com, where you can also explore responses by sector and location.

The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services

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