18th Annual Global CEO Survey

Key findings in the banking and capital markets industry

Achieving success while managing disruption

175

banking and capital markets CEOs in 54 countries were interviewed for PwC's 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey).

89%

of banking and capital markets CEOs are concerned that over regulation is a threat to growth.

Banking and Capital Markets CEOs have a renewed sense of optimism about growth, while recognising that the challenges are large, the risk of disruption very real, and the pace of change increasing.

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Basic Facts

175 BCM respondents, compared to 133 last year

Face-to-face interviews with Monique F. Leroux, Chair of the Board, President and Chief Executive Officer, Desjardins Group, Alexey Marey, Chief Executive Officer, Alfa Bank, Ross McEwan, Group Chief Executive, RBS, Beth E. Mooney, Chairman and Chief Executive Officer, KeyCorp, Atsushi Saito, Director & Representative Executive Officer, Group CEO, Japan Exchange Group, Inc. and David I. McKay, President & Chief Executive Officer, RBC

Introduction

In conversations our BCM clients tell us they have three major priorities – finding growth in a challenging environment, driving productivity, and getting ahead of risk and regulatory management.

This year's survey is consistent with these priorities, and with our views on the changing banking landscape and the imperatives for banks to respond to such change, which we explore in more detail in our 2020 series (including Retail Banking 2020, and Capital Markets 2020 and Payments 2020 launching later in 2015).

It highlights a renewed sense of optimism about growth, while recognising that the challenges are large, the risk of disruption very real, and the pace of change increasing.

And it highlights CEO's current thinking about critical levers to pull in order to execute upon the imperatives – themes around digital transformation, innovative partnerships, the importance of diversity, and proactive management of regulatory compliance – themes that are echoed in the broader Global CEO survey and which have particular resonance in the BCM world today.

Growth and disruption

BCM CEOs are optimistic about their growth potential, yet recognise that powerful forces are shaping the industry and the threat of disruption is real.

92% of BCM CEOs are confident about their growth prospects over the next three years, in line with the global CEO population. Yet they are not untrammelled optimists – only 43% believe that global economic growth will improve over the next 12 months, down from 56% last year.

And they are very aware of the powerful forces that are reshaping the industry at an ever increasing pace – with 58% of BCM CEOs believing there are more threats to their company's growth prospects than three years ago, while the same proportion believe there are more opportunities

Ross McEwan, Group Chief Executive, RBS: "The change that our people will go through over the next five years will, I suspect, be even greater than the huge change our business has seen over the last five years."

Customer expectations are rising

63% of BCM CEOs see the shift in consumer spending and behaviour as a threat to growth, a significant jump in concern from last year (51%).

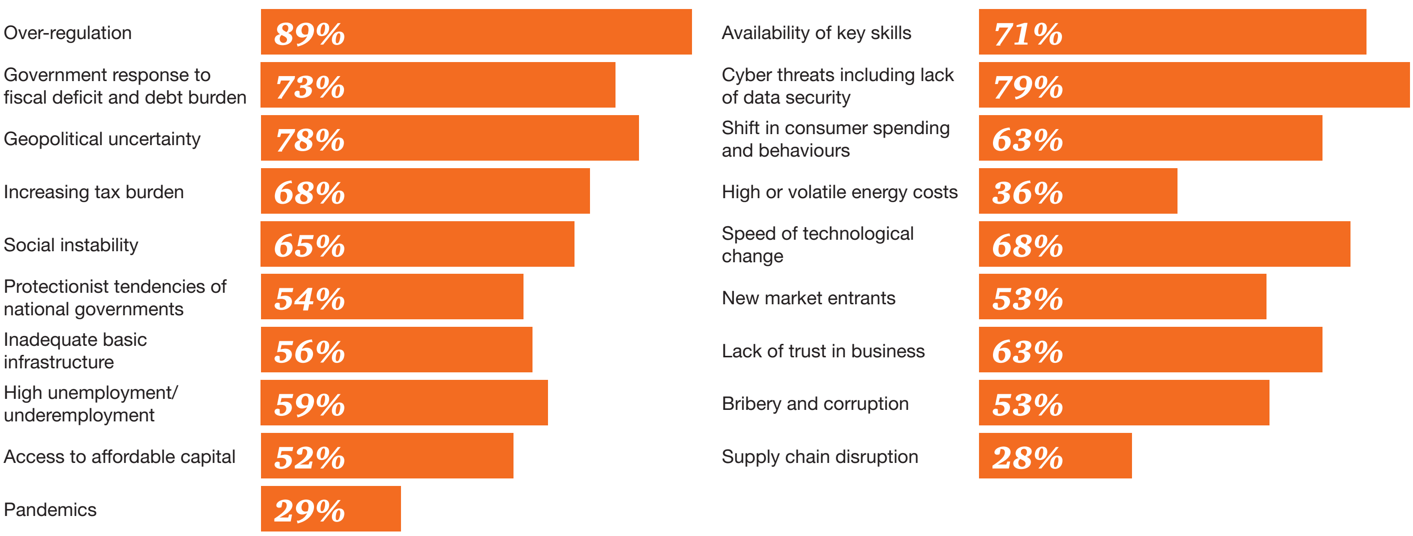
Customer expectations are rising, often shaped by their experiences with other industries. They expect seamless, on-demand, and relevant interactions – challenging banks to move beyond thinking in silos of products and channels, and truly understand the customers as individuals.

Beth E. Mooney, Chairman and Chief Executive Officer, KeyCorp: "In the consumer space, there's a huge shift in what customers are doing. We see it across all industries. It's redefining what relationship means; it's redefining what convenience means."

Figure 1 Threats to growth

Q: How concerned are you about the following potential economic, policy and social threats to your organisation's growth prospects?

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



Source: 175 Banking and Capital Markets CEOs interviewed for PwC's 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey)

Note: Respondents who stated 'extremely' or 'somewhat concerned'

Technology is changing everything

Technology is rapidly evolving, and impacting all areas of banking – the way banks understand and engage their customers, the way they enhance their operations, and the way they manage risk. Are banks able to keep up the pace of change, and keep up with more nimble competitors?

68% of BCM CEOs see the speed of technological change as a threat to growth, another strong increase from 57% last year.

Monique F. Leroux, Chair of the Board, President and Chief Executive Officer, Desjardins Group: "Digital technology, as well as the changes resulting from the disruption it causes, is a big topic and a big challenge for the future. However, it also creates opportunities. What's important is that we provide the right conditions for our people to be able to integrate the knowledge of new digital technologies in order to understand and confront the challenges created by them."

Non-traditional players are disrupting existing models

New market entrants are disrupting existing models, largely by better-serving customer needs at distinct points of the value chain. For example, crowdfunding – offering new lending and deposit opportunities, payments innovation – making transactions more convenient, market utilities – lowering the cost of transaction activities. New entrants are able to use technology to provide a better customer experience, at lower cost, unencumbered by legacy infrastructure or business models.

53% of BCM CEOs see new market entrants as a threat to growth, up significantly from 32% last year.

Ross McEwan, Group Chief Executive, RBS: "I think big banks like ourselves only let competitors into this marketplace because we don't serve the needs of our customers and it doesn't matter whether it's a product need or a service delivery need delivered through technology. If we're not with and leading our customers in some of these areas, others [will] come into our marketplace."

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When asked where these new competitors were likely to come from, 47% said technology and 33% from the communications sector. 31% said their main competitor would emerge from other areas of FS

Beth E. Mooney, Chairman and Chief Executive Officer, KeyCorp: "The days of being able to just think of other banks as your competitor are over. We've seen new entrants that are being driven by technology. We have to learn how to be competitive and differentiated against our other bank or financial service competitors. I have this saying that if you don't like change you're going to hate extinction."

Regulation continues to challenge business models and economics

The proportion of BCM CEOs who see over-regulation as a threat to growth has grown from its previous high level – to 89% from 80% last year, with 62% being extremely concerned, mirroring its return to number one in our Banking Banana Skins 2014 Survey. In addition, 53% of BCM CEOs believe regulatory change will have a very disruptive impact over the next five years.

Regulatory demands continue to rise, and compliance is both expensive and operationally challenging – billions are at stake. These demands also have the potential to divert the investment and management focus needed to address the transformation trends in the industry. Banks are evolving business models based upon regulatory demands and the new economics. And beyond this, the new regulatory agenda has significant implications for behaviours and culture – questions of how to drive and embed changed behaviour throughout the organisation.

Regulation can be seen as burdensome, but can also create both barriers to entry and opportunities for growth. Banks are trying to get ahead of these challenges.

Monique F. Leroux, Chair of the Board, President and Chief Executive Officer, Desjardins Group illustrates how banks are trying to shift their mindset: "Regulation is part of our industry, our business and I believe it is important in order to maintain a solid financial market. So, rather than being negative about it, we are trying to find advantages and incorporate them into our growth strategy."

Beth E. Mooney, Chairman and Chief Executive Officer, KeyCorp, discussed the impact of regulation on new entrants: "…there is the threat of new, smaller companies that can create a niche where they meet a need. So we think, how can we partner with them so we don't necessarily cede that capability to a non-bank competitor? We do that against the backdrop of a highly regulated industry that has very high standards for protecting privacy information, data, and security. That is mostly an advantage, particularly as we look at all the breaches that have happened recently. People are becoming increasingly sensitised to the importance of keeping their information secure. At the same time, some of those standards are burdensome, and those burdens do not necessarily apply to some of the non-bank competitors."

79%

of BCM CEOs see cyber risk as a threat to growth

"No one can be complacent about cybersecurity and identity theft, as we have watched the data breaches over the last year."

Beth E. Mooney
Chairman and Chief Executive Officer, KeyCorp

New risks are emerging

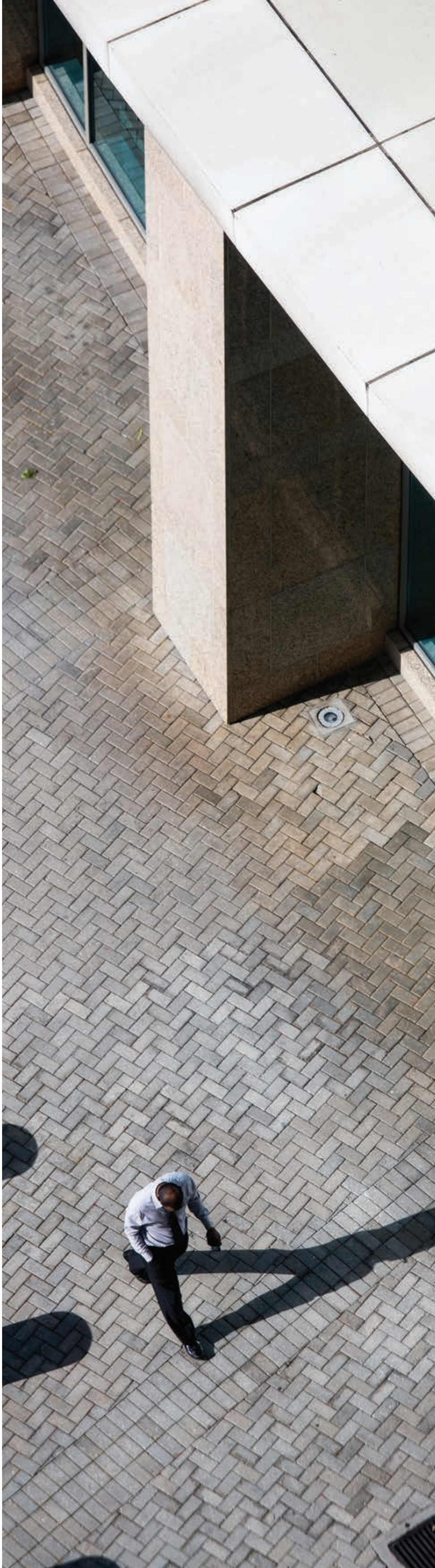
79% of BCM CEOs see cyber risk, 78% see geo-political uncertainty and 65% see social instability as threats to growth.

Beth E. Mooney, Chairman and Chief Executive Officer, KeyCorp: "No one can be complacent about cybersecurity and identity theft, as we have watched the data breaches over the last year. They're widespread, the statistics are frightening. The sources of where these breaches are coming from; it's no longer two kids in a basement. These are very sophisticated entities doing it for everything from commerce to criminal. What we are doing to protect data and our clients, in conjunction with other financial institutions and the government, is one of the most important things, because we are into new territory that has significant consequences."

Trust remains elusive

Despite strenuous board-level efforts to rebuild trust, concerns about the impact of lack of trust on business prospects continue (63% of CEOs). Customers often feel that their banks don't have their best interests at heart. And disruptive events like cyber-attacks add to fears about safety and soundness.

That said, customers do trust their banks, and



rely on their banks, each and every day. David I. McKay, President & Chief Executive Officer of RBC noted: “The foundation to our relationship with a customer, the core of that is trust. Our customer trusts us with their money. They trust us when they want to get their money and withdraw it, it’s there. They trust us when they want to move money. They’ll be able to do that 99.99% of the time. And they trust the strength and stability of the franchise. It’s absolutely critical that we maintain that trust in a world where we have increasing cyber security threats that are trying to breach that trust.”

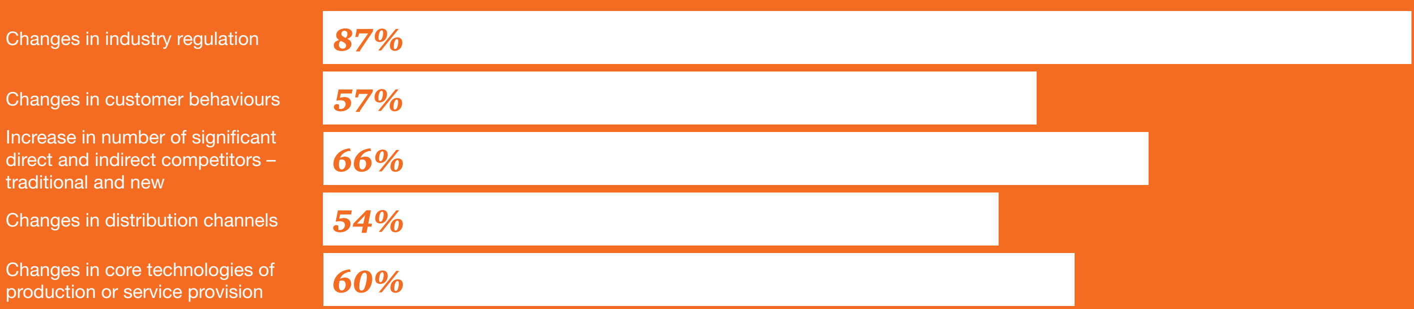
However, CEOs do recognise the need to ensure they always put customer’s interests first – which, although it doesn’t sound controversial – is not always the case.

Ross McEwan, Group Chief Executive, RBS: “We’ve just got to make sure that the organisation is structured correctly and has the right products and the right services so that it makes it really easy for our people to deal with customers in a way that is focused on their needs. If we do that all day every day, with every interaction focused on the customer needs, we will rebuild this trust over the next three to five years. But it’s not easy because it is challenging a lot of the basic things that this banking industry has got wrong for probably a decade or more. So, we are pushing against a lot of old habitual stuff that happened in our industry. But if we don’t do it, we will be regulated to do it.”

Figure 2

Major disruptors

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



Source: 175 Banking and Capital Markets CEOs interviewed for PwC’s 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey)

Note: Respondents who stated ‘very disruptive or ‘somewhat disruptive’

Imperatives for success

In our recent paper, Retail Banking 2020, we identified six interlocking imperatives for banks to win in the evolving landscape: developing a customer centric business model, optimising distribution, simplifying business and operating models, obtaining an information advantage, enabling innovation and the capabilities required to foster it, and proactively managing risk, regulation and capital.

The survey touches on many of these, and identifies several themes that are top of mind for BCM CEO's as they think about the "how" of how to drive these imperatives. We discuss four below – digital transformation, innovative collaborations, the importance of diversity, and taking a proactive approach to regulatory compliance.

Digital Transformation

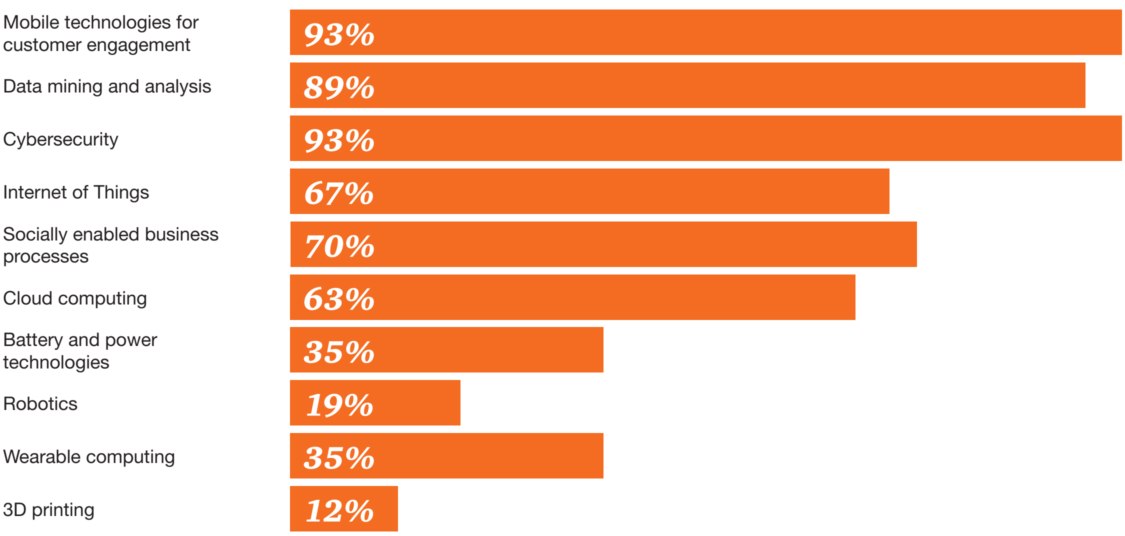
The survey highlights BCM CEOs' recognition of the importance of digital in executing across all these imperatives. It illustrates how digital truly has the potential to transform their businesses – by delivering better customer experience, optimising distribution, improving operational efficiency, and enabling better management of both internal and external risks.

89% of CEOs see that data mining and analysis is strategically to their organisation – and this analysis is not only used to better understand customer needs, but also to drive operational efficiency and effectiveness throughout the organisation.

But are banks making the most of these opportunities? Three-quarters of the institutions who participated in our Retail Banking 2020 survey earlier this year were investing in advanced analytical capabilities, but only 17% believed they were yet well-prepared to take advantage of the opportunities.

Figure 3 Importance of digital

Q: How strategically important are the following categories of digital technologies for your organisation?



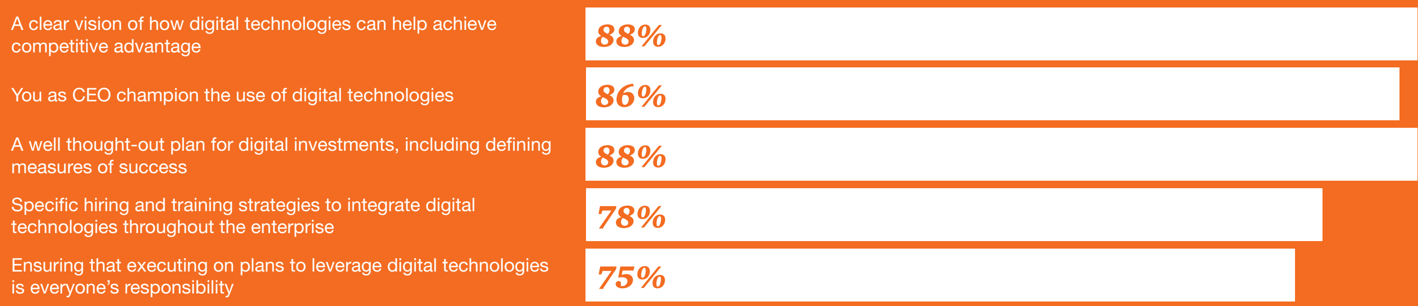
Source: 175 Banking and Capital Markets CEOs interviewed for PwC's 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey)

Note: Respondents who stated 'Somewhat' or 'Very important'

Figure 4

How to make the most of digital investments

Q: How important are the following factors in helping your organisation get the most out of its digital investments?



Source: 175 Banking and Capital Markets CEOs interviewed for PwC's 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey)

Note: Respondents who stated 'very important' or 'somewhat important'

Ross McEwan, Group Chief Executive, RBS commented: "You've got to be using the data, you've got to be using the devices, you've got to make it relevant for customers otherwise you lose them. And that will happen faster today than probably 10 years ago because they've got so many other choices."

93% of CEOs see mobile technologies as important, more than the cross-industry average of 81%. As consumers shift more and more of their activity to their mobile devices, it is critical that banks are able to move from traditional branch-based engagement models, and from distribution models where channels operate in silos, to seamless multichannel models.

Beth E. Mooney, Chairman and Chief Executive Officer, KeyCorp noted this need for seamless distribution and how it ties to enhanced customer experience: "We suddenly are in the position where it's not bricks or clicks. We've got to have both, and over time, manage our physical presence versus our digital presence and make sure that across them, customers get a good quality experience, the solutions and advice they need."

And considering the impact of technology on operational efficiency, Atsushi Saito, Director & Representative Executive Officer, Group CEO of Japan Exchange Group, Inc. noted: "In the world of securities exchanges, transactions get done in very short timeframes, such as milliseconds or microseconds... No one can stop this progress in technology. Know-how is in harnessing this technology and deploying it in a controlled manner. Transaction speeds will continue to go up." 94% of CEOs see digital technology as creating high value in the area of operational efficiency (as opposed to the cross-industry average of 88%)

And 93% of CEOs see the importance of cybersecurity, with 76% citing this as "very important" – a far higher percentage than the cross industry average of 53%. Given recent events, this is not surprising.

How can BCM organisations make the most of their digital investments? 86% of BCM CEOs recognise the importance of the CEO being the champion of digital technologies in helping to make the most of their digital investments. Our research into what develops the highest 'digital IQ' underlines the importance of leadership from the top rather than simply delegating responsibility for digital innovation and management to technology teams.[1]

78% of BCM CEOs believe that specific hiring and training to integrate digital strategies throughout the enterprise will help them to make the most of their digital investments. But only around 30% strongly agree, far lower than the technology, information, communications and entertainment businesses (TICE). Business teams need to become comfortable with new forms of big data and analytics-led decision making. It's also important to keep pace with end-user technologies, so that your staff can engage with customers across the latest forms of communication, remote working and virtual interaction.

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1 319 financial services organisations were interviewed for PwC's Sixth Annual Digital IQ Survey 'The five behaviours that accelerate value from digital investments'. The cross-sector report is available from http://www.pwc.com/us/en/advisory/digital-iq-survey

To conclude this section, it is important not to see technology alone as the solution to digital transformation. Ross McEwan, Group Chief Executive, RBS: "The other thing that is important with using technology is that a lot of people see it as the whole answer. But I think there are three things that are really important: one, technology that is flexible; two, your operational processes actually feed into that technology in a very simple way and you don't have multiple tasks going through it – we often blame the technology, but often it is the processes which are at fault; then the third piece and probably the most vital is that your people are trained to actually understand that process and how it feeds into that technology and how they can access the systems and processes really well. So, it's the connectivity of the three."

Innovative collaborations

Looking at innovation overall, banks see it as the most important driver of growth. But only 10% of retail banks believe they are innovation leaders. This select few estimate that their businesses will grow by more than 60% over the next five years, compared to only around 35% among the average and 20% for the least innovative.[2]

More than 40% of BCM CEOs see joint ventures, strategic alliances and informal collaborations as an opportunity to strengthen innovation and gain access to new customers and new/emerging technologies. And 37% plan to enter into at least one new joint venture or strategic alliance over the next 12 months.

This is becoming an increasingly important way to extend reach and capabilities, especially as many banks are simplifying and refocusing themselves around a core set of products, customers and geographies. More than a quarter of BCM CEOs say they use alliances to access skills. They can be a good way of bringing talent onboard that otherwise might not want to work in a typical banking environment.

Ross McEwan, Group Chief Executive, RBS notes: "A lot of banks are into absolutely everything: investments, insurances, all sorts of periphery products. But I think banks in many cases are now asking themselves 'what are we really, really good at?' At one stage our organisation was in 18 products in the international investment community. What we've found is we're really good at five things and those are the things our customers are open to. They will be delighted to see our people because they value our expertise in those areas: they never saw us as great at 18 things. So if those other 13 can be provided by somebody else, we would consider partnering with them."

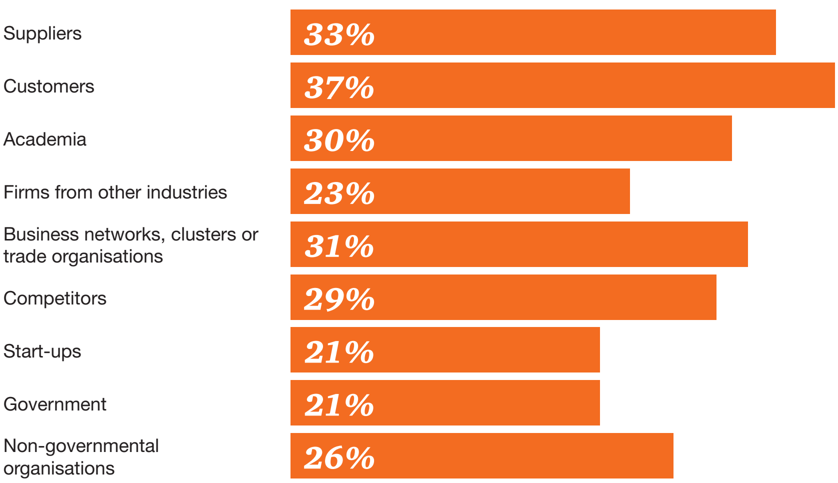
40%

More than 40% of BCM CEOs see joint ventures, strategic alliances and informal collaborations as an opportunity to strengthen innovation and gain access to new customers and new/emerging technologies.

Banks are considering a wide range of players as potential partners. Business networks, customers and suppliers are the leading contenders. Start-ups are surprisingly low down the list given the potential to access cutting-edge innovation and technology. Competitors are also surprisingly low given the increasing opportunities to provide infrastructure or white-label services to other banks and new entrants, which could become more attractive as the need for scale becomes more pressing and funds for investment in costly systems decrease.

Figure 5 Seeking collaboration

Q: Are you currently engaged with or considering engaging with any of the following types of partners through joint ventures, strategic alliances or informal collaborations?



Source: 175 Banking and Capital Markets CEOs interviewed for PwC's 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey)
Note: Respondents who stated 'yes'

78%

BCM CEOs acknowledge evolving talent demands and now look for a much broader range of skills when hiring than they did in the past.

Alexey Marey, Chief Executive Officer, Alfa Bank comments: "An example is our partnership with a major Russian telecom player, VimpelCom. Within the scope of this partnership, we have established a formal joint venture engaged in the development of mobile commerce (or mobile payment). Historically, many believe that mobile operators and banks are competitors. However, we believe that, within this joint venture, we can share our experience. We can look deeply into how mobile operators work and they can watch us work. This joint venture is quite a successful leader in the Russian mobile commerce market. It has been a money-maker since Day 1. This would have been much more difficult if either of us had decided to proceed alone."

Yet banks recognise the challenges of ensuring that third parties offer an appropriately high level of customer experience, and comply with all necessary regulations.

Beth E. Mooney, Chairman and Chief Executive Officer, KeyCorp: "It's easier to form partnerships these days because there is so much going on that you could leverage for the benefit of your clients, where you can augment your products as well as your client experience. But it is harder to make sure that the standards you hold yourself to, are also what you hold a third party to. That is the tricky part that comes from regulation and from owning a quality client experience, and that's the piece that you have to constantly balance."

Diversity

A marketplace in transformation and the need to seek out new opportunities for growth demands new skills and new ways of deploying talent

A more customer-centric business requires people who better reflect the changing customer base. This might be bringing in people from client industries to ensure a better understanding of client needs and how to deliver the right outcomes. It would also include ensuring the profile of senior management reflects the geographics and demographics of markets targeted for growth.

Atsushi Saito, Director & Representative Executive Officer, Group CEO, Japan Exchange Group, Inc: "While I do not categorically reject this approach, I'm afraid that if a company continues to recruit college graduates for a lifetime employment, it could eventually end up in a monotone culture. I think a company will have to embrace various types of people with diversified values in order to be competitive and to survive. After all, only companies with the ability to adapt will prosper. It is the key point for survival."

BCM CEOs acknowledge these evolving talent demands. 78% now look for a much broader range of skills when hiring than they did in the past. At the same time they recognise the challenges, with 71% seeing the limited availability of key skills as a threat to growth, compared to 61% last year

Seeking to broaden the diversity of talent could not only widen the talent pool, but also bring new ideas and experiences. 63% of BCM CEOs have a strategy to broaden talent diversity and inclusiveness or plan to promote one, ahead of asset management (47%) but less than insurance (74%)

Beth E. Mooney, Chairman and Chief Executive Officer, KeyCorp: "When you look at the skills necessary in this day and age, we are seeking talent differently than we have traditionally. We used to have a strong preference for somebody that understood banking or financial services, and now you cast a much wider net across many different industries. You're looking for distinct capabilities that they can transplant, because many of these people are new to banking. We have found that we need to look in different and diverse places for talent that can help us build out this big data, social media, technology-driven world."

Figure 6

Benefits of a diversity strategy

Q: Which of the following benefits, if any, has your organisation obtained from its strategy to promote talent diversity and inclusiveness?

Source: 110 Banking and Capital Markets CEOs in PwC's 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey) who stated their company has a strategy to promote talent diversity and inclusiveness

Note: Respondents who stated 'agree' or 'strongly agree'

BCM CEOs whose companies have such a strategy recognise its importance in enhancing business performance (85%), innovation (84%), customer satisfaction (80%), strengthening reputation (85%) and meeting evolving customer needs (82%). They are less convinced that their diversity strategy helps them compete in new industries/geographies (50%).

Ross McEwan, Group Chief Executive, RBS, recognises the challenges and the importance of overcoming ingrained attitudes. “Our training for 35 years has been done in a certain way and we need to be doing a lot more work on unconscious bias. We need to be doing a lot more work on mentoring and encouragement, bringing people through who are quite different in our organisations, but for the right reasons, not simply to make up the numbers.”

“Our training for 35 years has been done in a certain way and we need to be doing a lot more work on unconscious bias. We need to be doing a lot more work on mentoring and encouragement, bringing people through who are quite different in our organisations, but for the right reasons, not simply to make up the numbers.”

Ross McEwan
Group Chief Executive, RBS

A proactive approach to regulatory compliance

The ability to get on top of regulation is hampered by lingering uncertainty over the detail and its impact on the one side and what is often reactive, piecemeal and organisationally ill-co-ordinated implementation on the other. It’s therefore vital to develop a proactive approach to regulation, headed by a regulatory leader charged with liaising with regulators, assessing the strategic impact and co-ordinating the response.

Further, as the industry moves beyond the urgency of ensuring compliance with new regulations, banks will move towards embedding compliance throughout the organisation and ensuring the most efficiency and effective use of resources to do so. This involves cultural change on the one hand, and a streamlining and simplification of processes on the other.

Monique F. Leroux, Chair of the Board, President and Chief Executive Officer, Desjardins Group: “The key question is how we can facilitate regulation compliance in a way that is simple for our people and simple for our members and customers. That’s the big issue.

To achieve this, we need a very good understanding of the regulation and a good integration with our technology group. Our goal is to have our first line employees spending more time talking with their clients about their needs than doing paperwork and controls.”

This process of simplification will also consider who is best placed to actually conduct the processes of regulatory compliance. In the US, we’re already seeing the emergence of centralised know your customer/anti-money laundering utility offerings, similar to existing credit reference checks.

BCM organisations will also be able to make use of advances in the identification and surveillance of abnormal behaviour to detect fraud or rogue trading, using advances analytics.

From the regulators’ perspective, it will be important to ensure greater certainty around the regulatory agenda, and for policy to focus on the role of banking as a positive contributor to economic growth. Regulators should be mindful that banking is changing and will continue to change. Areas that fall outside their remit – or which are only lightly touched by them at the moment – will grow in importance, and they will need to focus on these intelligently. The priorities include how to extend oversight into new areas as FS embraces peer-to-peer lending, currency innovations, machine-to-machine trading and a wave of new entrants

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Full results of the PwC 18th Annual Global CEO Survey are available on www.pwc.com/ceosurvey

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