

# Turning risk into opportunity

## The changing face of Financial Services



**490**

Financial Services CEOs gave their insights, including 101 in Insurance and 176 in Banking and Capital Markets.

**63%**

see more threats now than three years ago.

**70%**

are concerned with the pace of technological change.





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# Foreword



Disruption in the Financial Services (FS) sector was on the horizon for many years. The growth of FinTech companies and technologies like Blockchain are just small parts of this much broader global trend.

The question for FS companies is no longer “what will disruption look like?” Disruption has arrived and is transforming the industry. Now, we have to ask “what does an appropriate response look like?”

This is certainly something we are seeing coming through from Financial Services CEOs who took part in the *2016 Global CEO Survey*. Awareness is now translating into action, with FS CEOs asking tough questions about how they will create a vision and strategy for the future, balance innovation and change with regulatory compliance, manage costs and new risks, and turn threats into opportunities for growth.

Within a New Zealand context, we have an FS sector that is well-known for adopting new technologies and innovative practices – something that is rightly celebrated. Yet, responding to the disruption of the FS industry isn’t just about embracing new technologies, it’s also about rethinking how businesses are structured and what the internal culture looks like, then tailoring an appropriate response that links to enterprise objectives.

For many FS companies, facing future challenges and responding to disruption has to start with people and culture. Even as digital technology and self-service becomes more commonplace, FS leaders are investing in new people capabilities and human interactions with customers. That’s why responding to disruption has to happen across every part of an organisation - it can’t be seen as just an IT problem.

This report looks at the challenges being felt by FS CEOs, and the responses they are developing in the face of this unprecedented period of change.

A handwritten signature in black ink that reads "A Symons."

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# Overview

## The state of Financial Services

### The FS landscape

Non-traditional Financial Services have created new dynamics for banks, insurers and regulators.

#### Traditional Financial Services



*Banks & insurers*



*Regulators*



*Fintech*



*New players*

#### Non-traditional Financial Services

#### Adjacent sectors



*Loyalty*



*Payments*



*Cards*

### Barriers to meeting stakeholder expectations

Q: Which of the following barriers, if any, is your organisation encountering when responding to wider stakeholder expectations?

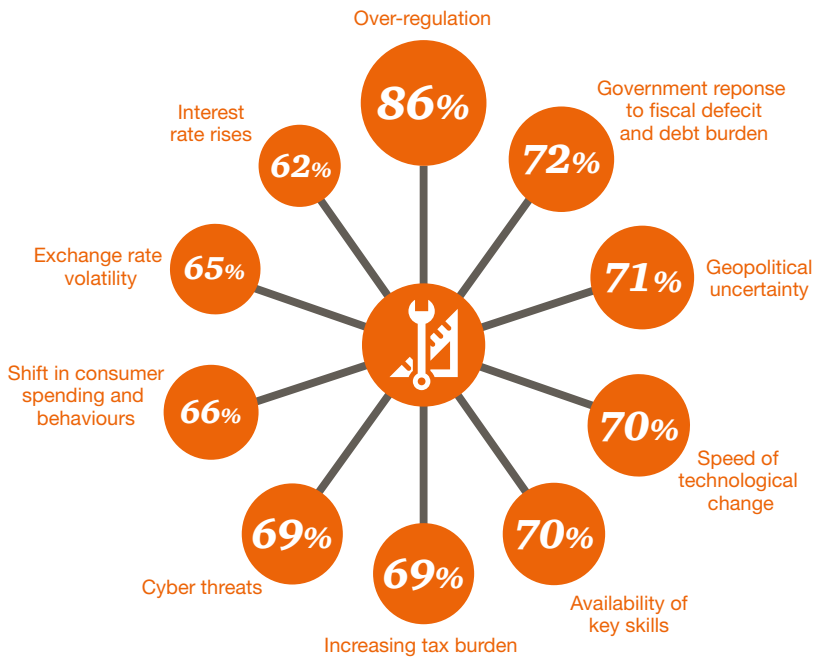


Source: FS participants in PwC's 19th Annual Global CEO Survey

### Top ten threats to growth

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

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



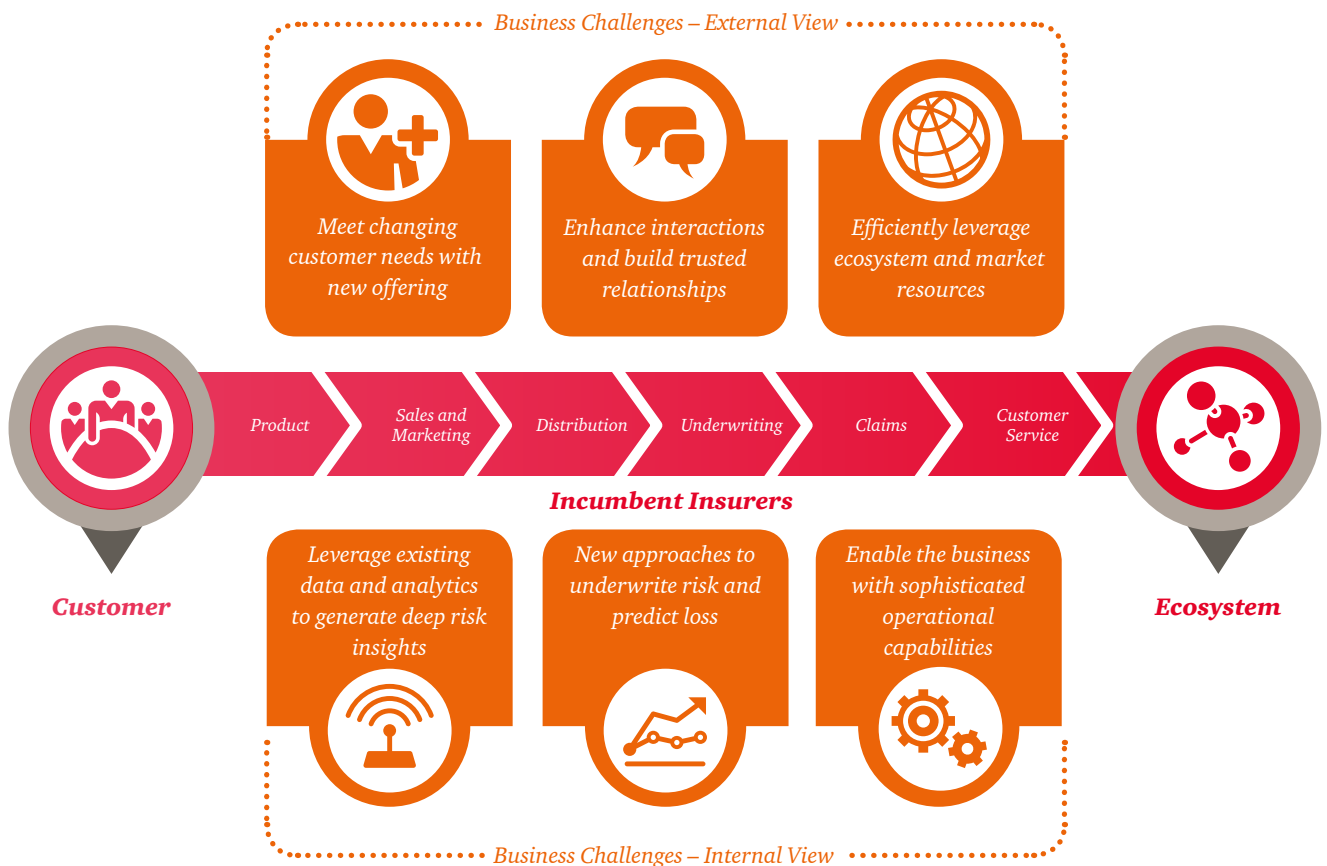
*"A big organisation with legacy systems needs to think like a startup, and we are going to be a 200-year-old startup."*  
 David McLean  
 CEO of Westpac

*"We wanted a purpose that could resonate with any stakeholder, not only a customer. Our purpose, and how we engage our people, is that you are not here to sell insurance; you are here to help make the world a safer place."*  
 Craig Olsen  
 IAG

Source: FS participants in PwC's 19th Annual Global CEO Survey

### Business imperatives

The challenge of building a robust insurance ecosystem.



Source: 101 Insurance CEOs participating in the 19th Annual Global CEO Survey

# Rethinking Financial Services

## Bringing new ideas into established firms

There's no doubt the Financial Services sector is going through a period of significant change. The growth of FinTechs, changing customer demands, the need to become more innovative and the changing relationship between boards and executives are all reshaping the industry. At the same time, the FS sector has to balance these demands against the expectations of analysts and the requirements of regulators.

CEOs in Financial Services are now well aware of these challenges. In fact, 70 per cent feel the speed of technological change is a potential threat to the business's growth prospects. The question now is how this threat is going to translate into a coordinated response from established players in the FS sector.

This response requires, at the highest level, a vision for where the company is going to go. From there, it's possible to determine how changing internal workflows and company culture can help to reach that goal. FinTechs represent just one part of this equation. While our *2016 Global FinTech Report*<sup>1</sup> found that FinTechs have huge disruptive potential – particularly around Consumer Banking – they also represent an opportunity for established institutions to partner with new firms and rethink their own processes.

According to our research with FS CEOs, many are still struggling to manage these different expectations and challenges to their business model. Exactly half of respondents feel the biggest barrier to meeting wider stakeholder demands is additional costs to business, while 34 per cent identified a conflict between meeting stakeholder demands and their financial performance expectations.

Stakeholder management is even more important in the New Zealand setting. Local institutions will not only have to balance the demands of a tech-savvy population, they also have to evolve and adapt alongside their parent firm across the Tasman and in a dual regulatory environment.

*“The risk is that 50 people may come along and take a bite off the value chain – not that someone is going to come along and build a massive Westpac. Essentially we risk being eaten by 1,000 piranhas instead of one single shark.”*

David McLean  
CEO of Westpac

Q: Which of the following barriers, if any, is your organisation encountering when responding to wider stakeholder expectations?  
.....

Additional costs to  
doing business:

**50%**

Conflict between  
stakeholder interests and  
financial performance  
expectations:

**34%**

Lack of the right  
capabilities:

**26%**

Insufficient information  
about wider stakeholder  
expectations:

**26%**

Source: FS participants in  
PwC's 19th Annual Global  
CEO Survey



While stakeholder management is clearly a pain point, it's also a major opportunity in the New Zealand context. The Banking sector locally has an opportunity to act as a test site for digital transformation and, in essence, act as a microcosm for innovation – while still complying with the demands of other stakeholders like regulators.

While there is no clear answer to what this response will look like, FS firms are starting to respond by rethinking their current operations, their organizational purpose and where they want to go to in the future. In fact, 40 per cent of our CEO respondents are considering changing their organisational purpose to account for their social impact. Again, this process of renewal has to be stakeholder-centric and outcome-focused in order to achieve true transformation in the FS sector.

Q: Which part of the Financial sector is likely to be the most disrupted by FinTech over the next five years?

Consumer Banking:

**80%**

Fund transfer & payments:

**60%**

Investment & Wealth Management:

**38%**

Source: Participants in the Blurred Lines Survey

**Priorities for change – Insurance**

Q: To what extent are you making changes in the following areas in response to changing stakeholder expectations?

Respondents stating 'significant change'



Source: 101 insurance CEOs participating in the 19th Annual Global CEO Survey

# Banking on change

## Keeping up with an evolving industry

**80%**

of respondents said new Customer Relationship Management systems ranked as the connecting technology that will have the greatest return on investment.

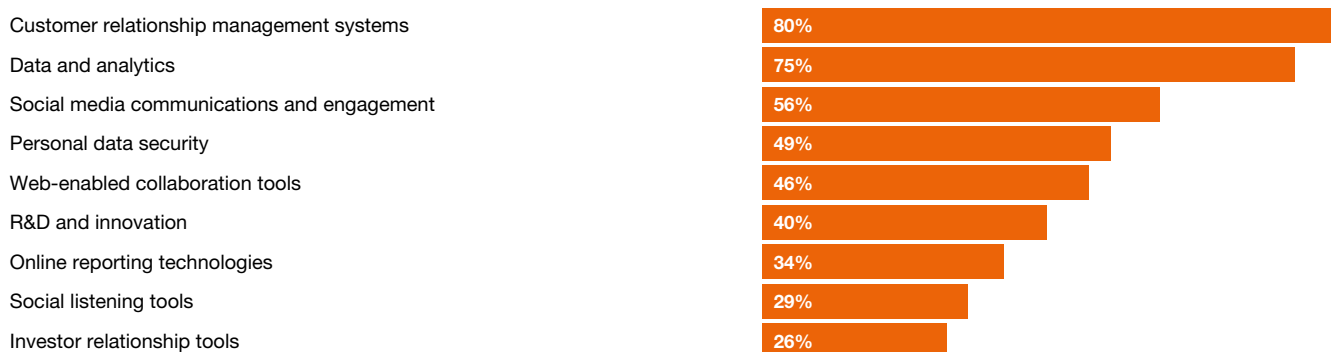
Growth is firmly on the agenda for Banking and Capital Markets although this optimism is being tempered by an uncertain industry landscape. Despite 81 per cent of Banking CEOs feeling concerned about the pace of technological change, there's still a very real sense that banks are looking for new opportunities.

In New Zealand, the question has to be "where will this growth come from?" The country's small market and advanced Banking sector means that organisations need to carefully consider where they grow – from new products or new customer groups for example – and how they can refine their current service offering.

What has come through from the *2016 Global CEO Survey* results is that current economic conditions are less of a concern compared to the more fundamental changes that are occurring in the sector. The speed of technological developments, for example, was the second-highest risk in the survey, with 81 per cent either extremely or somewhat concerned about this issue. As growth becomes increasingly linked to new technology in New Zealand, and the pace of change remains strong, there is a real risk that planned services will become obsolete before they achieve a return on investment.

### Technological priorities

Q: Please select the connecting technologies you think generate the greatest return in terms of engagement with wider stakeholders.



Source: 176 BCM CEOs participating in the 19th Annual Global CEO Survey

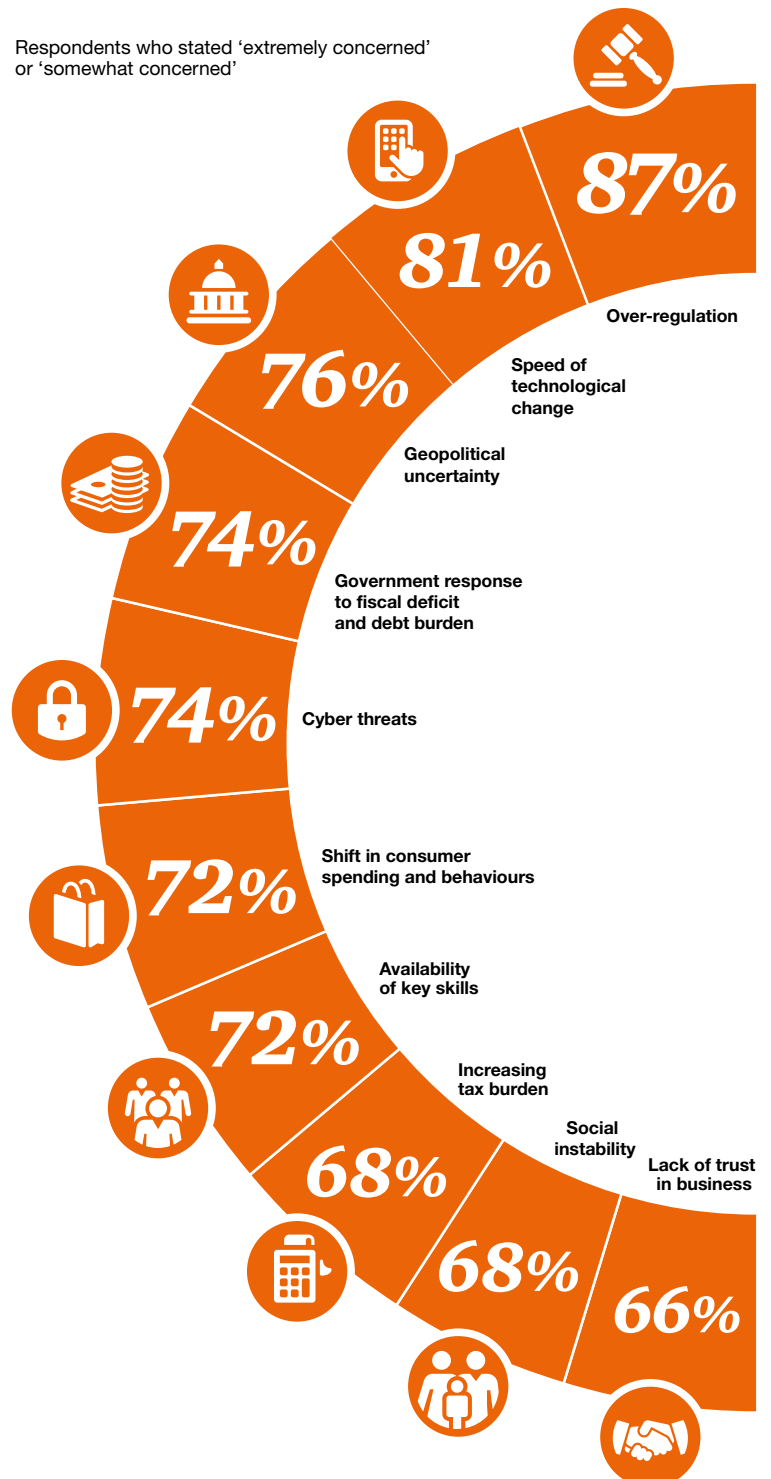
While technology is clearly changing the state of the Banking sector, companies are placing more focus than ever on improving their technical capacity. New Customer Relationship Management (CRM) systems ranked as the connecting technology that will have the greatest return on investment (80 per cent of respondents), followed by data and analytics (75 per cent) and social media engagement (56 per cent). Technology and social media also ranked as major risks for Banking and Capital Markets, with these two reaching first and second respectively in our recent *Banking Banana Skins* report<sup>2</sup>. The CEO Survey found a further 74 per cent of Banking CEOs are concerned about cyber risks globally, underscoring how serious this concern is.

As with the other parts of the FS sector, stakeholders are also coming through as a major concern for Banking CEOs. In fact, 60 per cent are adjusting the way they define and manage risk because of stakeholder demands. It's this awareness of rapidly changing expectations that can also be seen in the popularity of CRM systems and social media among our respondents in Banking and Capital Markets.

What we are really seeing is Bank CEOs responding to a rapidly changing market with both enthusiasm and a sense of caution. On the one hand, there is a real recognition that they have to keep up with this change, especially if stakeholders have come to expect it already. On the other hand, they are carefully balancing these opportunities with the risks that come with social media and related technologies.

**Concerns over economic, policy, social and business threats**

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



Source: 176 BCM CEOs participating in the 19th Annual Global CEO Survey

# Lessons from the frontline

## Meeting stakeholder expectations in a changing world

One of the most interesting trends to come out of the 2016 Global CEO Survey for insurance leaders is how worried they are about the threats within the industry and how these might affect growth. In fact, insurance CEOs rank behind only the entertainment and media sector in their levels of concern about growth prospects, ahead of Banking and Capital Markets, healthcare and asset management.

For insurers globally, over-regulation is the largest concern, cited by 66 per cent of respondents as an extreme concern. Beyond over-regulation though, the big risks are coming from changing consumer needs and technology. New entrants into the marketplace are also considered a major risk by 65 per cent of insurance respondents. These FinTechs will often be able to harness technology to deliver a better customer experience than established firms.

Some of the biggest developments in the insurance sector are now being driven by new consumer technologies and devices. Driverless cars are a commonly cited example of this phenomenon, but they demonstrate how a new generation of consumer technologies will reshape the insurance sector. These fundamental changes in the types of risk that the industry is insuring against are playing heavily on the minds of CEOs and will demand a coherent response strategy.

The 2016 Global CEO Survey results from insurers show these leaders aren't just behaving reactively to new technologies, they are also being proactive, particularly when they engage with clients. We asked CEOs where they are seeing the greatest return on investment and data and analytics ranked highest, cited by 79 per cent of respondents. Also reaching the top three were CRM systems (76 per cent) and social media engagement (58 per cent). Overall, 70 per cent are looking to use technology to better understand, assess and meet stakeholder expectations.

As New Zealand insurers consider what stakeholder engagement will look like in a local context a key focus will be on the consumer experience. Meeting the changing needs of insurance stakeholders, while also offering comprehensive cover for changing consumption patterns will both be key for local insurers. This customer-centric approach will allow insurers to manage the current disruption within the sector and find new potential for growth.

Q: Please select the connecting technologies you think generate the greatest return in terms of engagement with wider stakeholders.

Data and analytics :

**79%**

Customer relationship management systems:

**76%**

R&D and innovation:

**46%**

Social media communications and engagement:

**58%**

Web-enabled collaboration tools:

**49%**

Source: 101 Insurance CEOs participating in the 19th Annual Global Survey



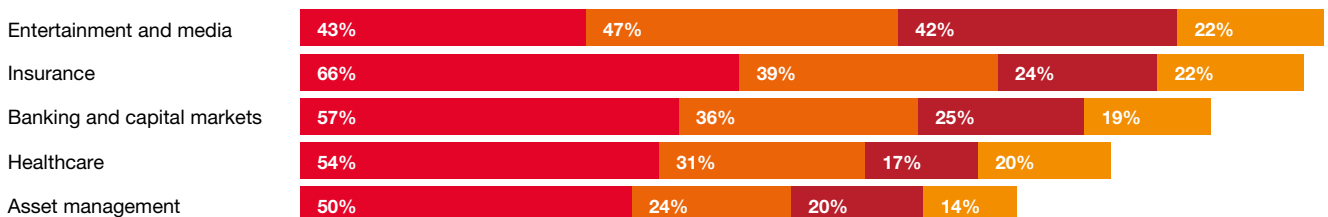
*“We do very practical things around how we make your world a safer place. If you take cyber risk for example, that isn’t just about having a cyber product for communities. If you are really extending ‘we help make your world a safer place’, it’s not just about having an insurance product for them.”*

Craig Olsen  
IAG

**Impact of key forces of change (top five most impacted sectors)**

Q: How concerned are you about the potential threat to your growth prospects from the following?

**CEOs stating ‘extremely concerned’**



■ Over-regulation  
 ■ Speed of technological change  
 ■ Shift in consumer spending and behaviour  
 ■ New market entrants

**Combined significantly and somewhat concerned ratings for insurance are:** Over-regulation 94%, Speed of technological change 69%, Shift in consumer spending and behaviour 64%, New market entrants 65%

Source: 101 insurance CEOs participating in the 19th Annual Global CEO Survey

# Want more data?

**79%**

of FS CEOs feel their purpose is centred on creating value for wider stakeholders.

**70%**

feel that a limited talent pool will inhibit their growth.

**64%**

of Insurance CEOs are adjusting the way they manage risk to account for changing stakeholder expectations.

**63%**

of Banking CEOs feel they need to do more to communicate their organisational purpose and values to stakeholders.

Source: CEOs participating in the 19th Annual CEO Survey

**More than  
20%**

of FS business is at risk to FinTechs by 2020\*



**75%**

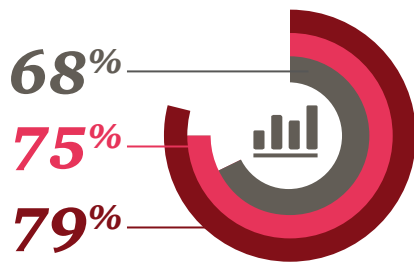
of FinTech Survey respondents feel FinTech is able to meet changing customer demands with new products



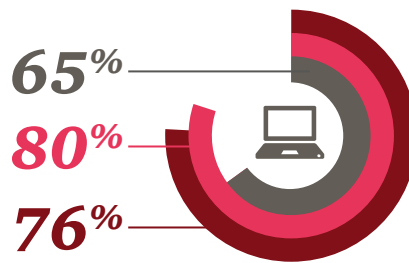
Source: Participants in the Blurred Lines Survey

**What connected technology gives the greatest return on investment?**

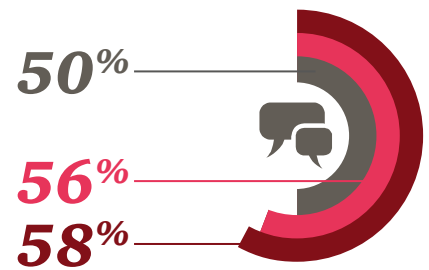
*Data and Analytics*



*CRM Systems*



*Social Media*



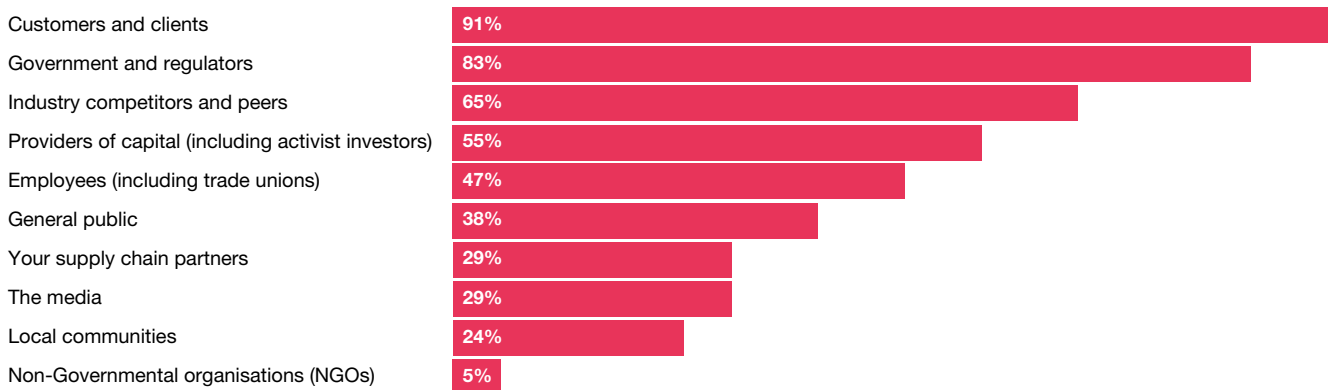
■ Global CEOs ■ Banking CEOs ■ Insurance CEOs

Source: CEOs participating in the 19th Annual CEO Survey

**Influencing strategy**

Q: What impact do the following wider stakeholder groups have on your organisation's strategy?

Respondents who stated 'high impact' or 'very high impact'



Source: FS participants in PwC's 19th Annual Global CEO Survey

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# Get in touch



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