Securing your tomorrow, today.

THE FUTURE OF FINANCIAL SERVICES

Peter Burns
Global Banking & Capital Markets Leader,
PwC Australia
peter.burns@pwc.com
+61 2 8266 4726

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Taking the lead... Securing your tomorrow, today.

THE FUTURE OF FINANCIAL SERVICES

Macro trends with the biggest impact on financial services

1 Low interest rates will continue wreaking havoc on margins and business models.

2 The COVID-19 recession and asset impairments will reduce risk-bearing capacity for regulated industries to support the real economy as it enters the recovery stage over the next year.

3 Alternative providers of capital are set to become an even more important part of the global financial system.

4 COVID-19 will not delay—and may accelerate—the implementation of current and planned regulatory measures in many countries and regions.

5 Continued de-globalisation will further align the size of regulated financial institutions to the GDP of their home countries while continued offshoring will increase operational risk across the industry.

6 Firms face unrelenting pressure to boost productivity through the digitisation of the business and the workforce.

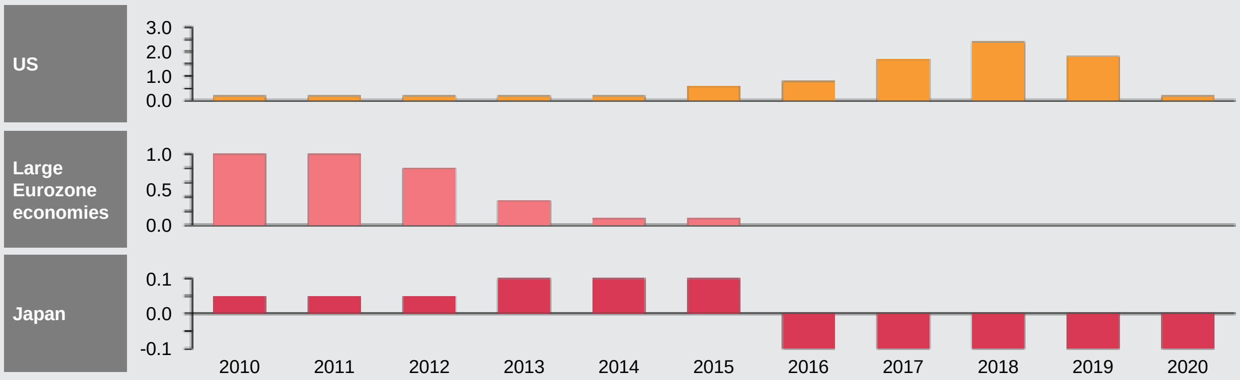
7 The client-driven shift to a platform - and ecosystem-based financial services industry will create a new wave of disruption and disintermediation.

Low interest rates will continue wreaking havoc on margins and business models

Ultra-low interest rates

Effects on net interest margins

Central bank interest rates (%)



Effect on net interest margins (approx.)

US
-15%

Large Eurozone economies
-25%

Japan
-25%

Source: BIS, RBA, FRED, World bank; ECB, PwC analysis

Key takeaways

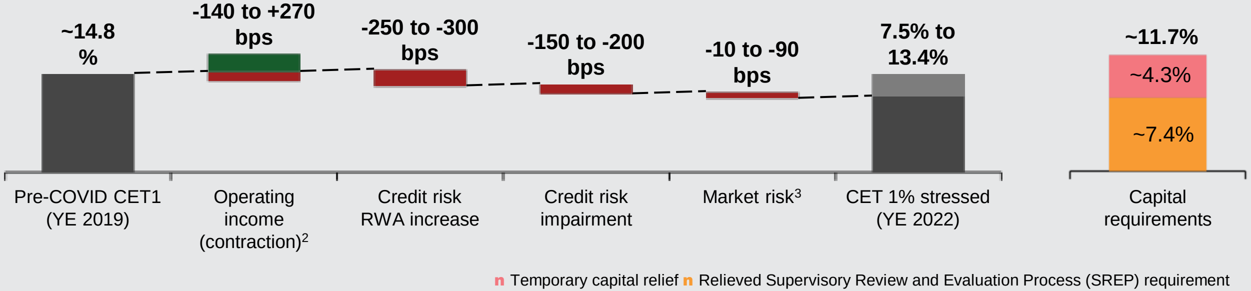
- The response to COVID-19 will **likely significantly prolong ultra-low** or even negative interest **rates**
- **Greater indebtedness on country** level provides further **incentives** to keep **interest rates low**
- Low interest rates will continue to **compress margins** in the short term for the banking sector and **distort asset-prices** in the long term
- This requires institutions to **increase investment in measures to reduce costs, digitise** and improve productivity to maintain margins and profitability

The COVID-19 recession and asset impairments will reduce risk-bearing capacity for regulated industries

Reduced risk-bearing capacity of the regulated financial service firms

Declining core capital ratios constrain risk-bearing capacity

Capital impact drivers in European banks[1]



Individual effects on banks can be clustered in three types

Type 1: Withstand
Strong capital base with significant loan loss reserves, little to no impact on risk-taking capacity

Type 2: Rebuild
Need to rebuild capital base through greater retention of profits, temporary reduction of risk-taking capacity

Type 3: Restructure
Reduce footprint, clients, business and sell business and/or raise capital, long-term reduction of risk-taking capacity

1) Austria, Belgium, Germany, Italy and the Netherlands. Assumptions: U-shaped scenario for these economies (-9.3%, +5.8%, +1.1% GDP change in 2020, 2021 and 2022, respectively); 2) Incl. reduction of administrative Expenses; 3) Combined RWA increase trading book and net trading income decrease
Source: PwC analysis. Association for Financial Markets in Europe 2019

Key takeaways

- **Asset impairments** resulting from the COVID-19 pandemic will **ultimately further constrain risk-bearing capacity** of regulated banks and insurers
- This prohibits them from **supporting the real economy in the recovery stage**
- This will be **particularly problematic in Europe,** where companies obtain ~90% of their new funding from bank loans
- Most businesses will need to **rely on a broader set of funding options**

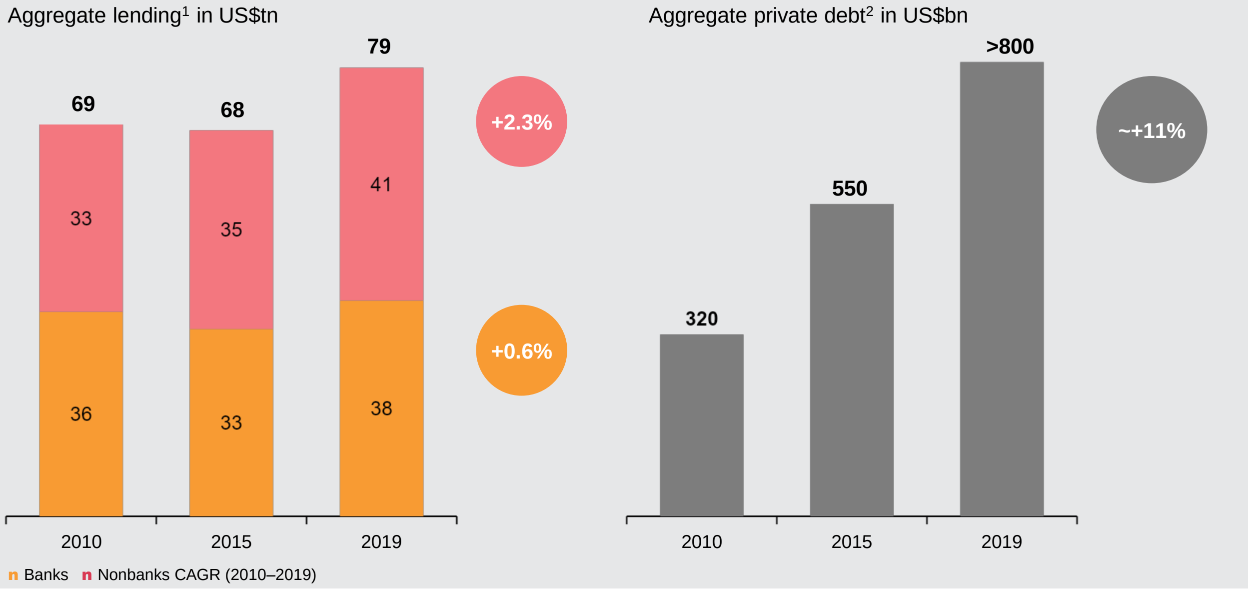
Alternative providers of capital are set to become an even more important part of the global financial system

3

Strengthened role of alternative financing

Bank vs. nonbank financing

Financing volumes by source



1) Advanced economies, at market values, credit to private non-financial sector 2) Worldwide, all sectors
Source: BIS, 2018/2019 Preqin global private debt report, CFA Institute, PwC analysis

Key takeaways

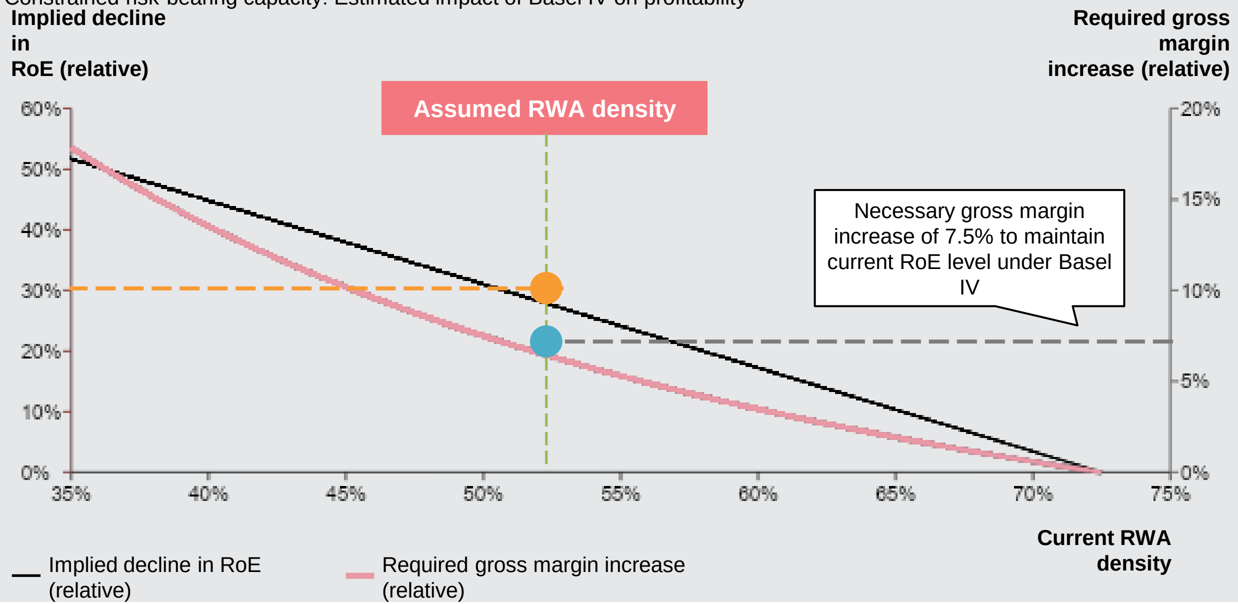
- Post-GFC regulation increased the **cost differential of regulated v. unregulated capital,** thus significantly **boosting the role of nonbank providers** of capital
- A further **increase the share** delivered by **capital markets** and the so-called **shadow banking** or alternative financing industry (such as PE funds and sovereigns) seems likely
- This **especially affects small and medium-sized enterprises**, as their funding flexibility is rather limited
- Financial institutions need **to adjust their business models** and find **new ways to participate** in the value chain of intermediation and marketing

COVID-19 will not delay the implementation of current and planned regulatory measures in many countries and regions

Unchanged regulatory pace

Basel IV: A significant impact on margin and RoE

Constrained risk-bearing capacity: Estimated impact of Basel IV on profitability



Source: PwC analysis

Key takeaways

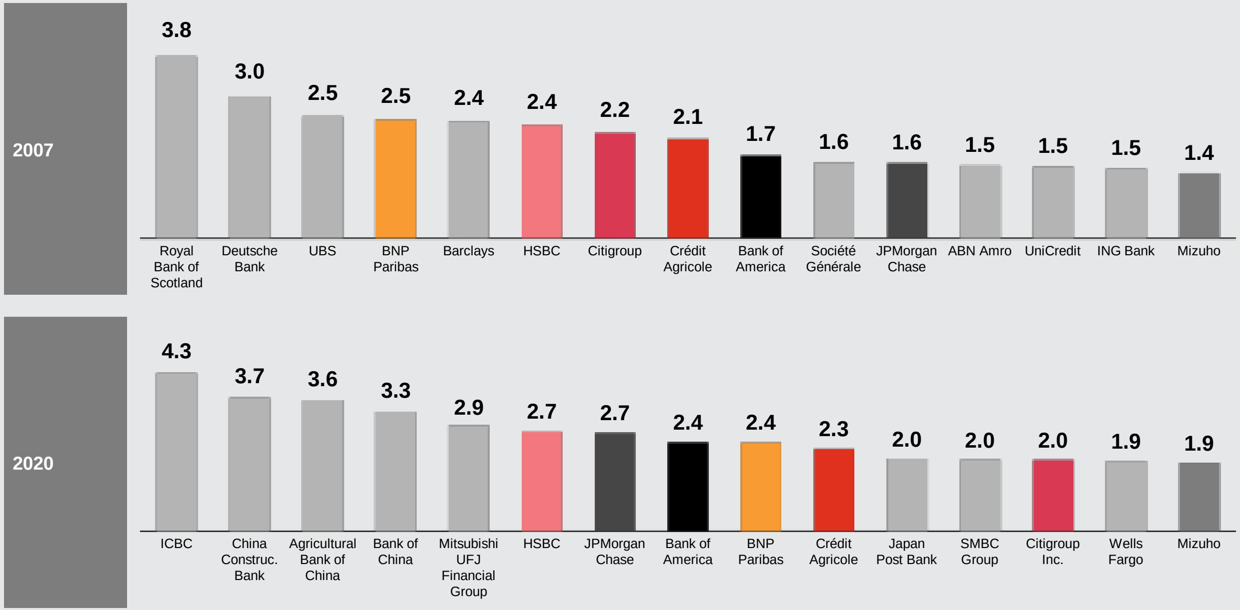
- Regulation has been, and will remain, a **significant trend** in the industry
- **No relevant deviations from the regulatory agenda,** except for implementation pauses that will eventually be scaled back
- The **implementation of Basel IV** and tighter capital regulation will continue, challenging **traditional lending business models** and institutions across the board
- As providers of capital, banks and insurers will also **increasingly serve as a mechanism to transmit** both the benefits and the costs of emerging ESG requirements to clients

Continued de-globalisation will further align the size of financial institutions to the GDP of their home countries

5

Continued de-globalisation

World’s 15 largest banks by total assets US$tn



Source: Annual reports, S&P Global

Key takeaways

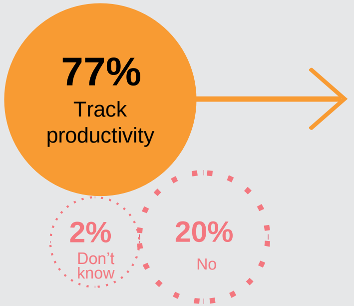
- Inter alia as a result of post-GFC regulation, the **relative shrinkage of many European institutions** has been **dramatical**
- At the same time, a **striking rise in the size and scope of Chinese institutions** occurred
- This amounts to a new financial world order, one that **is more aligned with national economic power**
- At the same time, cost pressures spurred financial institutions to **further separate their front-office operations** from their **often outsourced banking operations**
- De-globalisation could lead to a **renewed focus on nearshoring** and the **diversification** of offshore locations

Firms face unrelenting pressure to boost productivity through the digitisation of the business and the workforce

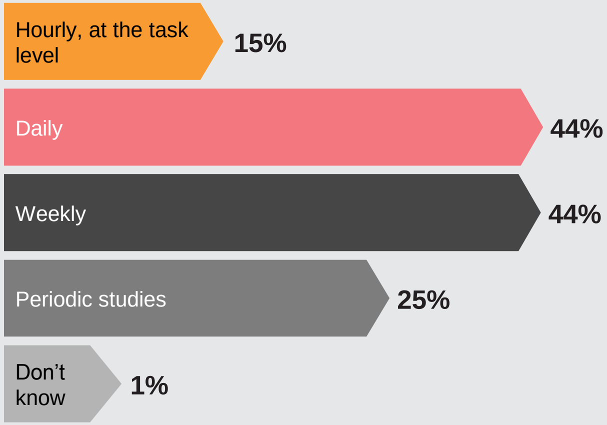
Unrelenting pressure to boost productivity

Bank vs. nonbank financing

More FS organisations are now tracking productivity: 77% in 2020, versus 62% in 2018



US$5bn+ organisations are more likely to track productivity at an hourly level (25%) compared with those under US$5bn (11%), but few do at a meaningful level



Organisations in **China** (96%) and **India** (96%) are more likely to track productivity, compared with organisations overall (77%)

Source: PwC Productivity Survey 2020

Key takeaways

- It is unlikely that the **sped up client conversion to digital channels** will revert after the crisis
- Hence, **digitally enabled solutions will become an increasing differentiator**
- Leading institutions will **further digitise their customer-interaction models,** strengthen digital sales and service model, with **performance tracking** being an **important foundation**
- This involves a **material cut back on support functions and branch infrastructure** that failed to prove their value during the pandemic

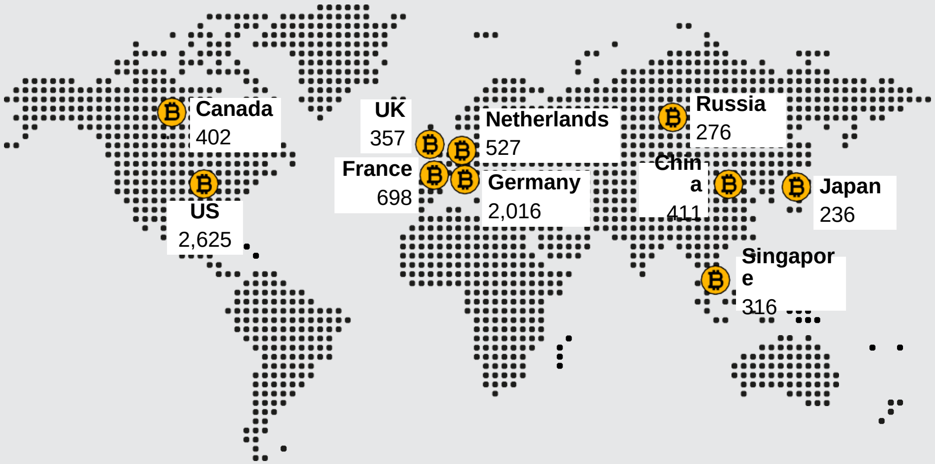
The client-driven shift to a platform- and ecosystem based financial services industry will create a new wave of disruption

Client-driven shift to platform- and ecosystem-based financial services

Cryptocurrencies move to the mainstream

Daily transaction volume

Visa	Mastercard	Bitcoin	American Express	Square
US$30.3bn	US$16.2bn	US$6.2bn	US$3.2bn	US$0.2bn



Source: Annual reports, S&P Global

Key takeaways

- The shift to a more **platform- and ecosystem- based industry**, including more digitised client interactions, will create a **new set of challenges and opportunities** for the industry
- The **use of electronic payment platforms**, including those linked to **digital currencies, spiked recently**
- According to the Bank for International Settlements, **more than 40 central banks are researching forms of digital currency** that they can issue
- There are signs that **a dramatic acceleration in adoption** of digital currencies is occurring, tremendously **bolstering the ecosystem** further

How can the 4Rs help financial services firms prepare for tomorrow?

Framework to respond

01 Repair

Trust: strengthen engagement with business, government and regulators

Agility: accelerate operational preparedness to manage/ restructure impairments

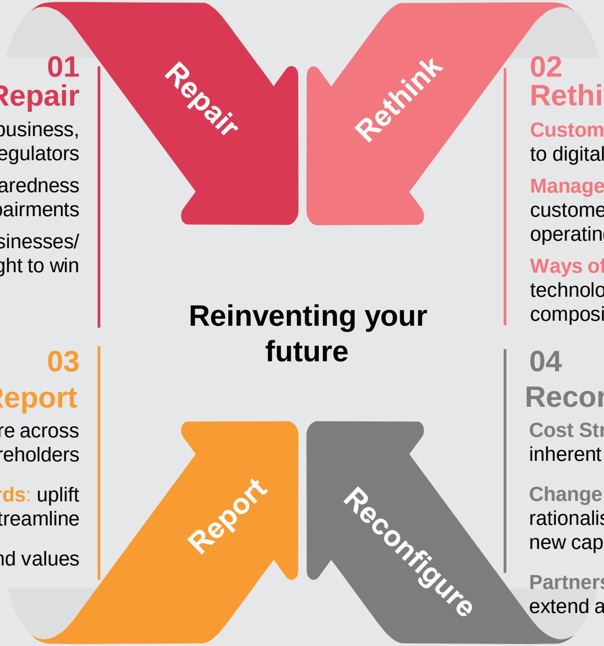
Portfolio: align to rebound businesses/ products where you have a right to win

02 Rethink

Customer & Strategy: Accelerate the move to digital and rethink acquisition models

Management: Increase accountability for customer outcomes through more agile operating models

Ways of Working: Reimagine footprint, technology enablement and workforce composition/ skilling



03 Report

Transparency: strengthen disclosure across ESG, Regulatory, Shareholders

Accounting & Tax Standards: uplift capability and streamline

Society: reaffirm purpose and values

04 Reconfigure

Cost Structure: Realign structural and inherent costs and drive productivity

Change: Align with business accountability, rationalise and shift from remediate to ROI on new capabilities

Partnerships: Increase partnerships to extend acquisition or access scale/ experience

Six critical actions

- Reaffirm **purpose** and role in society to re-establish **trust**
- Drive industry **consolidation** and resolve portfolio differentiation
- Proactively manage **financial stability** while preserving agility for **growth**
- Accelerate **digitisation** and reconfigure it to improve customer adoption
- Support **workforce** transitioning and upskilling
- Prepare for a changed **regulatory** and **government** environment

Thank you