

Will it change for good?



*Are capital markets participants and users prepared and capable to reimagine the future, innovate and compete against this still unfolding backdrop?*

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## PwC: Significant changes afoot for Global Capital Markets

### *News release*

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**PwC: Significant changes afoot for Global Capital Markets**

- *Report finds that global capital markets will undergo tremendous change in next five years*
- *Industry players need to innovate now to compete against unfolding backdrop*
- *76% of global respondents felt a financial centre rivalling London or New York will emerge through 2020*

A new report, [Capital Markets 2020: Will it change for good](#), just published by PwC predicts a new equilibrium for global capital markets, the landscape, composition and dynamics of which it says will, come 2020, look very different to that of today. It urges players to prioritise responding to the aftermath of the financial crisis now, if they are to remain relevant in five years' time.

Said Antony Eldridge, PwC Asia Pacific Banking & Capital Markets Leader & Singapore Financial Services Leader:

“Whilst policy makers and regulators are leading the reform agenda and forcing its pace, they are merely the catalysts. The real drivers – the expectations of a wider set of stakeholders, and the realities of a new economic and commercial landscape - are what will fundamentally and permanently reshape global capital markets.”

PwC says the new equilibrium will emerge in terms of innovation, technology, industry structures, business models, financial structures, products, and remuneration.

As such, says PwC, players must prioritise responding to the aftermath of the financial crisis, meeting new client demands, adapting to technological advances and adjusting to the industry reform agenda. Otherwise, participants (investment banks, broker-dealers, financial market utilities and their like) and users (private equity firms, pension funds, hedge funds and other non-bank financial intermediaries and corporates), run the risk of emerging from the crisis recapitalised, restructured, reformed but irrelevant.

PwC's conclusions are supported by responses to its global survey of 250 capital market executives and industry leaders, with the top three challenges cited as increasing client profitability (36%), adapting to new technologies (33%) and attracting and retaining talented employees (33%). In Asia Pacific, the top three challenges were increasing frequency of cyber threats (49%),

digital transformation (45%), and new market entrants (39%).

Asia Pacific respondents were most concerned with new regulations that could restrict the ability to generate profitable business (46.1% vs 34.5% globally), a crippling global cyber attack (38.7% vs 48% globally), and loss of market share to non-traditional players (37.3% vs 28.8% globally).

Capital market participants globally also recognise the need to enhance their client offering with 56% citing this as their top investment priority. Asia Pacific respondents indicated that their top investment priorities are R&D and innovation (59%), filling talent gaps (45%), and enhancing customer service (41%).

Globally, executives are highly concerned by the threat posed by shadow banking players such as crowd funders and peer-to-peer lenders. 70% believe they pose a moderate to severe threat to traditional banks with 16% indicating they believe this shadow banking world may be set to expand beyond its current 25% market share of financial assets. Just 20% believe they present innovative partnership opportunities. 55% of Asia Pacific respondents feel that non-traditional players will be the biggest threat to traditional capital markets particularly in the areas of new channels for distribution (78% vs 77% globally) and lending products (46% vs 24% globally).

Despite shifts in global gross domestic profit and economic power, liquidity pools will continue to aggregate in established global financial hubs. The majority (76%) expect a financial centre rivalling London and New York to emerge, likely in Asia Pacific.

The views of both capital markets participants and users are aligned in terms of their perspectives on major market dynamics and changes. For example, both expect staccato-like volatility and instability that will cause markets to experience booms and retreats, and both anticipate strong financial performance will require business focus.

Furthermore, both view the business impact of technology similarly, on the one hand as a source of risk if not managed properly, and, on the other, an enabler of competitive advantage. This can be further extended to executives' perceptions on the ability to gain an information advantage through big data, as both expect it to be a significant driver going into 2020.

Where the two groups differ, however, is in their interpretation of how market changes will shape individual investment priorities and challenges. While, both users and participants agree client-innovation is an important investment focus, users are more concerned about implications of technology and compliance investments than their participant counterparts. This stems from the fact that participants have embarked on big transformation programs, some 3–5 years earlier, while many users are only starting to consider the implications of these market structural changes. As such, users still have a long way to go in terms of financing their strategic initiatives. Of the survey respondents, over half of the users indicated they have to raise additional capital to fund their regulatory initiatives compared to less than a third for participants.

Users of capital markets see significant challenges in maintaining their foothold and positioning with clients. Meanwhile, participants view attracting and retaining employees and the threat of new market entrants as their top challenges.

According to PwC, there are six priorities that players in capital markets in Asia Pacific need to confront and tailor their strategic response to now, to emerge as leaders:

- Enable innovation, and the capabilities to foster it
- Proactively manage regulation, risk and capital
- Establish stronger culture and conduct
- Obtain an information advantage
- Redefine the business model
- Strategically renew the operating model

Karen Loon, PwC Singapore Banking & Capital Markets Leader commented:

“As global interconnectivity and ubiquitous access to financial markets increase, we see a world where well-functioning, deep capital markets are

needed more than ever. Industry leaders must address the continually changing market forces and prove they can operate within this new equilibrium, which includes justifying their social utility. To succeed in the world of 2020, participants and users of capital markets will need to choose what posture to adopt against this shifting landscape – whether to be a shaper of the future or a fast follower. Staying the same will not be an option.”

## **ENDS**

### **Notes to Editors:**

PwC’s report ‘[Capital Markets 2020: Will it change for good](#)’ is based on insights from PwC teams and clients from around the world. Additionally, PwC assessed challenges and opportunities the evolving marketplace is creating for financial market participants and how they plan to respond. It then developed a point of view on how megatrends will impact the future of the global financial system, using PwC’s proprietary Project Blue framework. PwC considered how these trends will drive various scenarios for the future of capital markets, focusing on questions such as, where the clients will be in 2020, where the capital will come from and what the potential roles of capital markets participants will be in the economy and in the context of government policy. PwC translated these trends and its view of the landscape into six priorities for capital markets participants and users to help ensure their future success. Finally, PwC commissioned a survey of over 250 capital market executives and industry leaders from around the world to obtain their feedback and insights.

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