Navigating into the future

Around the world, financial services industry executives face many similar challenges. Chief among these is their struggle to keep pace with myriad changes coming at them from all directions: in particular, new technologies, new market players, and shifting customer demand.

How rapidly is the pace of change accelerating for financial services industry (FSI) firms, and how are leaders planning to navigate their firms into the future? To answer these questions, it’s important to first consider that there are some regional and national differences in competitive market structure, regulatory environments, and the global scale of the industry that influence outcomes. Even though the larger G7 economies (Canada, France, Germany, Italy, Japan, the United States, and the United Kingdom) are still dominant, in terms of size (assets) and number of transactions, other countries, especially...
from the large emerging markets, have been catching up. In some cases, they have even surpassed their cohorts in advanced economies. For example, financial institutions in many emerging economies have been able to more easily implement modern core technology platforms,\(^1\) because of the relative absence of legacy investment and integration with 40-year-old systems often found in firms in the G7.\(^2\)

It’s interesting to consider the historical context here. In 2008, finance ministers from the G7 countries were actively involved in developing response strategies based on increasing instability in the financial sector,\(^3\) and were called upon to take action to limit the damage to the global financial system when things got really bad.\(^4\) Despite their efforts to stem the tide, many of the larger G7 financial institutions were hit hard during this time period.

Data from the World Bank suggests that inherent structural differences exist between institutions in the G7 and non-G7 economies (see figure 1).\(^5\) For example, the banking industry is slightly less concentrated, as measured by assets of the five largest banks in the G7. But their collective return on assets (ROA) for the most recent year analyzed, 2015, shows that banks in the non-G7 cohort (hereinafter referred to as the “rest of the world”) are twice as profitable. On the other hand, insurance products show much more penetration in the G7 than in non-G7 countries. Similar trends can be observed in the size of the mutual fund sectors (Ireland being the notable exception here) and securities trading volumes.

To examine these similarities and differences between the larger economies and others, data was analyzed from a recent Deloitte survey of financial services executives globally. The survey revealed that these geographic differences influence how financial services firms will be impacted, and what their executives are planning to do about it.

**Figure 1. Structural differences: G7 vs. the rest of the world (ROW)**

<table>
<thead>
<tr>
<th></th>
<th>Top five bank share</th>
<th>Bank ROA</th>
<th>Life premiums/ GDP</th>
<th>Nonlife premiums/ GDP</th>
<th>Mutual fund assets/GDP</th>
<th>Share value traded/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>G7</strong></td>
<td>70.7%</td>
<td>0.57</td>
<td>5.55%</td>
<td>2.22%</td>
<td>54.9%</td>
<td>88.8%</td>
</tr>
<tr>
<td><strong>ROW</strong></td>
<td>81.8%</td>
<td>0.98</td>
<td>3.13%</td>
<td>1.48%</td>
<td>31.9%*</td>
<td>30.1%</td>
</tr>
</tbody>
</table>

*Not including Ireland, an outlier at 728.6%.

Source: The World Bank’s Global Financial Development Database; Deloitte Center for Financial Services analysis.
The analysis provided some insight regarding executives’ expectations for the future. In short, survey analysis showed that:

- Many G7 leaders doubt the influence of some emerging technologies, and are less likely to include them in their current plans.
- There is broad agreement about the influence of regulation, and relatively less concern about both current and emerging competition.
- G7 executives see changes in talent and operations coming much sooner than those in the rest of the world.

- Talent needs and gaps differ; G7 leaders are looking for industry and content knowledge, whereas others value flexibility and adaptability.

Each of these is discussed in greater detail below.

Technology is a major change agent, but emerging technologies may not be in the driver’s seat.

While all of the executives surveyed believe change is coming, they disagree about the degree of change they will likely experience over the next five years. Nearly 50 percent felt that the industry will change radically, while the other half felt that change will come more gradually (see figure 2). Most respondents agreed on the root causes of change, however: More than two-thirds felt that technology innovation will play a key role in industry change, while nearly one-half believed regulation will have a major influence.

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**Figure 2. Impact of emerging technologies: G7 vs. rest of the world (ROW)**

<table>
<thead>
<tr>
<th>Technology</th>
<th>Internet of Things</th>
<th>Biometrics</th>
<th>R&amp;CA</th>
<th>Cryptocurrencies</th>
<th>Mobile payments</th>
<th>Blockchain</th>
</tr>
</thead>
<tbody>
<tr>
<td>G7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROW</td>
<td>22%</td>
<td>39%</td>
<td>18%</td>
<td>15%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>G7</td>
<td>22%</td>
<td>29%</td>
<td>15%</td>
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<td>22%</td>
<td>14%</td>
</tr>
<tr>
<td>ROW</td>
<td>31%</td>
<td>33%</td>
<td>24%</td>
<td>23%</td>
<td>26%</td>
<td>30%</td>
</tr>
<tr>
<td>G7</td>
<td>16%</td>
<td>23%</td>
<td>11%</td>
<td>17%</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>ROW</td>
<td>9%</td>
<td>6%</td>
<td>6%</td>
<td>9%</td>
<td>9%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Data in charts may not add up to 100% due to rounding.

Source: GFSI growth and strategy questionnaire; Deloitte Center for Financial Services analysis.
The survey focused on a specific set of emerging technologies—wearable devices, the Internet of Things (IoT), biometrics, robotic and cognitive automation (R&CA), cryptocurrencies, mobile payments, and blockchain—that have received a lot of press and attention from industry players. Many financial institutions are now experimenting with, and in some cases implementing, these technologies. But the survey revealed a divergence in opinion about the role that these technologies will play in driving change; some FSI leaders are not convinced that they will all have an impact. And, given the lack of track record, these leaders are cautious about rolling them out to their clients.

Conversely, the respondents from outside the G7 clearly anticipate that their businesses will be affected by these emerging technologies. Two-thirds of respondents in this group felt that the IoT will have a significant impact (where respondents rated the impact as a “four” or a “five” on a five-point scale), compared to just over 40 percent in the G7 firms. Similar significant differences with regard to impact were seen in biometrics, cryptocurrencies, and mobile payments.

On the other end of the scale, a significant minority of G7 firm leaders doubt the influence some of these technologies will have. One-fourth saw little to no impact (scoring a “1” or a “2” on the same scale) from the IoT, against only 10 percent in the rest of the world. Robotic and cognitive technologies (38 percent in the G7 vs. 24 percent outside), and mobile payments (30 percent vs. 12 percent) also received a relatively more pessimistic vote from the G7 firm respondents. Surprisingly, with regard to mobile payments, 40 percent of executives from the United States expect little to no impact on their industry. With the caveat that the sample size is relatively small, 7 out of the 17 US banks (41 percent) saw little to no impact from mobile wallets and other payment technologies, vs. 14 out of 36 (37 percent) of the nonbanks.

Despite overall skepticism, only a small percentage of G7 leaders believed these would have literally no impact; it’s just that a smaller percentage of them felt the impact would be high to very high in comparison to the rest of the world. So, for those in the G7 that saw even the slightest impact coming, they do believe that change is coming rapidly. Nearly half of the G7 firm leaders expected wearables to influence their businesses in the next two years, against only one-quarter of their counterparts. Conversely, executives in the non-G7 expected change from robotic process automation (RPA) and cognitive technologies to come much more slowly; more than one-third saw meaningful change coming in a 10-year time horizon vs. 20 percent of G7 executives.

How actively are firms using these technologies? In line with their skepticism about their impact, G7 financial institution respondents were much more likely than their non-G7 peers to say that some of these technologies are not part of their current plans (see figure 3). Significant differences were observed in biometrics (44 percent of G7 not planning to use, vs. 22 percent in the rest of the world), RPA and cognitive technologies (54 percent vs. 38 percent), cryptocurrencies (49 percent vs. 30 percent), and mobile payments (33 percent vs. 18 percent).

Turning to the areas where solutions are in production today, 42 percent of non-G7 respondents reported that they are actively using biometrics, against only 29 percent of those in the G7. The same is true in mobile payment technologies; 62 percent of firms outside the G7 offer mobile payments to their clients, vs. 41 percent in the G7. And 38 percent of non-G7 firms stated that they were planning to use cryptocurrencies vs. 25 percent in the G7.


Respondents also shared their views on other pressures often cited as strategic influencers. For one, financial institution executives in the G7 do not seem to feel the pressure of customer expectations nearly as much as their counterparts in other countries do; only about 40 percent cited this as a change driver, compared to almost 60 percent of those in non-G7 countries (see figure 4). And interestingly, neither group feels much pressure from current and emerging competitors. Less than 20 percent of G7 FSI respondents viewed competitive dynamics as a driver of change, and only one-quarter in the rest of the
Figure 3. Usage of emerging technologies: G7 vs. rest of the world (ROW)

<table>
<thead>
<tr>
<th>Biometrics</th>
<th>R&amp;CA</th>
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<th>Mobile payments</th>
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<td>21%</td>
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<tr>
<td>28%</td>
<td>36%</td>
<td>32%</td>
<td>41%</td>
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<tr>
<td>44%</td>
<td>22%</td>
<td>54%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: GFSI growth and strategy questionnaire, Deloitte Center for Financial Services analysis.

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Figure 4. Drivers of change and regulatory burden

**Top three drivers of change:**
- **Customer expectations**: 41% for G7, 58% for ROW.
- **Current/emerging competitors**: 18% for G7, 25% for ROW.
- **Regulation**: 43% for G7, 44% for ROW.

**Anticipated change in regulatory burden**
- **G7**: 48% increase, 31% stay the same, 22% be reduced.
- **Breakout: US vs. rest of G7 (ROG7)**:
  - US: 40% increase, 26% stay the same, 35% be reduced.
  - ROG7: 57% increase, 37% stay the same, 7% be reduced.

**ROW**:
- 69% increase, 19% stay the same, 13% be reduced.

Source: GFSI growth and strategy questionnaire, Deloitte Center for Financial Services analysis.

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world felt this way. So are the respondents less worried about fintech disintermediation than conventional wisdom suggests? Another possibility: They may be more likely to consider the effect that regulators may have on emerging fintech companies.8

Regulatory influences were cited by both groups, as mentioned above. But there’s more than meets the eye there. While 70 percent of FSI leaders outside the G7 expect regulatory burdens to increase in the next one to two years, less than one-half of their G7 counterparts see it that way. But this is only part of the story, because there’s a notable difference in expectations in the United States vs. the rest of the G7. Almost 35 percent of US respondents actually foresee a reduction in the regulatory burden in the near term, compared to just under 7 percent of those in the remaining G7 countries.

Both groups see impacts ahead for their businesses. Those in the G7 see them coming more rapidly.

Given that change will be driven at some level by technology and regulatory forces (in either direction), the survey explored which operational areas would likely be most directly impacted. The consensus was that the risk management and compliance, product development, and customer service groups would be affected the most (see figure 5). But G7 FSIs foresee a change in their overall operating model as well, much more so than their counterparts do. Almost one-third of G7 FSI respondents expect that the fundamental way they go to market
will see significant change, vs. only about one-fifth of non-G7 respondents sharing this view.

As for the timing, G7 FSI respondents speculated that these changes would occur much sooner (within two years) than their counterparts believed they would (within five years). The most significant differences were in the timing of change in customer service groups, the operating model, and human resources/talent: By an almost 2-to-1 margin, G7 FSI executives predicted rapid change vs. non-G7 respondents.

**G7 FSI leaders are recruiting for specific skills.**

Finally, the survey asked the executives about talent challenges today and going forward. In terms of the kind of skills needed for success in a changing industry, an understanding of regulation and risk came out on top; almost 70 percent of respondents in each group cited this need (see figure 6). Both groups also reported that the capacity to anticipate change and evolving trends was important. More than 50 percent in each group cited this as an important skill that their firms would need.

G7 FSI executives placed a much higher priority on “table stakes” capabilities—industry and content knowledge and expertise—than did their counterparts. This area came in second overall in the G7, with 61 percent of respondents, while only half that percentage placed this as a top three priority in the rest of the world. The net result: G7 FSI leaders’ top three talent needs were an understanding of regulation and risk, industry experience and content expertise, and the capacity to anticipate change. In

![Figure 6. The two groups express different needs: Core business skills vs. broader capabilities](Figure 6. The two groups express different needs: Core business skills vs. broader capabilities)
the rest of the world, the top three talent needs were an understanding of regulation and risk, capacity to anticipate change, and flexibility and agility. Finally, these non-G7 executives are also seeking more opportunities to build networks and partnerships with others in their ecosystems.

Executives also reported on current and near-term talent shortages in their organizations. While the differences were not statistically significant, the top three areas were interesting across the two groups. Those in the G7 saw the largest talent shortages in innovation (43 percent), sales (41 percent), and risk and compliance (40 percent). Outside of the G7, firms saw gaps in innovation (46 percent), IT (41 percent), product development, and risk and compliance (both at 38 percent). Looking longer term, one-quarter of G7 FSIs believe that they will be facing operational talent shortages, while only 5 percent of those in the rest of the world felt this way.

**Are firms in G7 countries at risk of falling behind?**

As discussed earlier, some combination of a relatively more hobbled banking sector in the G7, combined with more room for growth insurance, asset management, and capital markets in the rest of the world, may be at play in the survey results. For those firms in the G7, responses suggest that the influence of the Great Recession of 2008–2009 has had a lasting impact on their expectations of change, and their strategies for adapting to change going forward.

While the G7 firm respondents see change coming sooner than in the rest of the world, they are more focused on how their operating model may change and the impact this may have on their back-office operations. They are more wary of the hype surrounding many emerging technologies, as well. On the talent side, they expect to continue to need talent with industry and regulation and risk management expertise.

In contrast, respondents from non-G7 firms clearly see major change coming from emerging technologies, and their firms are not hesitating to use them. They, too, believe they’ll need additional resources to manage in a tightening regulatory environment, but they also see the need for talent in product development and IT, perhaps to tap into profit pools that have not yet been addressed.

**Moving forward: Will slow and steady win the race?**

A handful of insights can be drawn from the survey findings:

- Firms outside the G7 see their futures as being much more dependent upon emerging technologies, while many in the world’s largest economies wait for proof of impact. But, in light of the rate of exponential change in technologies, it’s quite possible that this complacency/skepticism among the G7 FSI firm executives might put them at a disadvantage. By that point, they may be too late to capture a leadership position.

- Firm leaders around the world are less likely to be preoccupied with potential fintech disruption moving forward. They do, however, recognize the need for innovation; acquiring talent with nontraditional profiles may be an increasing part of the solution.

- Outside of the United States, where regulatory tightening is expected, firms will likely need to continue to push for improved risk management and compliance protocols.

- G7 financial institutions may seek to increase the pace of business transformation given expectations for rapid change. But they may leave opportunities for improvement on the table if emerging technologies such as robotic and cognitive automation, blockchain, and the IoT are not in the playbook.

Leaders in both groups can benefit from considering these factors in their ongoing strategic planning and investment cycles, as well as in thinking about how they apply to their particular firms or markets.
ENDNOTES

6. The countries represented herein as the “rest of the world” are Australia, Austria, Belgium, Brazil, Colombia, Costa Rica, Denmark, Finland, Hungary, India, Ireland, Luxembourg, Mexico, the Netherlands, New Zealand, Nigeria, Singapore, South Africa, Sweden, Switzerland, and the United Arab Emirates.
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