20/20 Vision:

The CBI/PricewaterhouseCoopers Financial Services Survey

The future for financial services.

The future of the financial services industry has rarely been under greater scrutiny than over the last two and a half years, with fundamental questions raised about the role of the banks in particular, but also other sectors. To find out what the outlook is for the industry over the next 20 years, we consulted experts at PwC and the CBI and drew on work already published by both organisations. Then we conducted interviews with 20 leading protagonists in the debate, both within the industry and outside it, and from all the main financial services sectors. Though there was of course no consensus about the future, here are some highlights of the views expressed.

Customers and products

- *'**Innovative ideas** will be **scrutinised** much more carefully to crosscheck the risks they carry for their providers and the benefits they bring to customers.'*
- Role for fund managers in **winning back public trust** in financial services by **tackling** the tendency among companies, funds and investors to **chase short-term profits** and growth **at the expense of long-term sustainability.** '*We need to see change in the way people look at how companies are run.'*
- 'The need for the industry to explain itself better to the wider world. *'From the point of view of some stakeholders, **banking looks powerful, amorphous and self serving..** 'The reality is that what banks do is important to the economy and to society*.

UK competitiveness and London as a leading financial centre

- ***'London has been damaged by the crisis,*** *'It will carry on being an **important centre**, but not number one as it was a few years ago. There has been a resurgence in New York's position, which would grow if the UK imposed much tighter regulations.'*
- Concern about 'politically motivated changes to the tax system', *'Any one of these tax measures in isolation one could almost shrug off. But when you **put the whole lot together, it's bad news**... People say 'Why should I work here?'*
- The tax regime now has a **reputation for uncertainty** that **does not inspire long-term confidence** in the UK as a place for FS businesses.
- London still retains fundamental competitive advantages - the English language, its time-zone between America and Asia, its respected legal system and the supporting infrastructure.
- London will be challenged by rising centres in Asia such as Singapore, Hong Kong and Shanghai. *'…not because of the financial crisis, but .. the shifts in the global economy. **London will lose market share,** though it won't diminish in importance.'*
- UK capital remained a hugely attractive city offering a lifestyle that only New York could match. But on the threat of higher taxes, he added: 'The only people who pay the taxes here are those who love being here or who can't move. Those that can move will move. The question is where the tipping point is.

The future shape of the FS industry

- London is likely to remain an important centre for asset management, no expectations of serious restructuring among the UK leaders, and competition in asset management from outside the industry seen as unlikely.
- *'I … see **a new class of institution** coming out of the **hedge fund or private equity sectors** to fill the void left by the old stand alone investment banks.'*
- Possibility of **convergence between hedge funds and investment banks**. Talent in investment banks' proprietary trading operations could move to the investment management business.
- Insurers expect consolidation of smaller companies and the departure of others. *'The market share of those who do choose to stay here will increase.'*
- A new role emerging for existing life insurers in managing the risks that had built up in the UK pension system, where there was around £1 trillion of final salary pension liabilities.
- **China and the Asian markets** widely seen as **targets for future growth** across the FS industry. HSBC and Fidelity International both recently announced **relocation of top bosses** from London to Hong Kong **to strengthen emerging markets focus**, *'We see Asia as a faster growth area in the next 10 years,'* …. *'We will still be investing in Europe, but more of our investment will go into Asia.'*

Government intervention and regulation

- *'The **financial services industry** is a global infrastructural industry that is central to **economic activity around the world.** It cannot be allowed to develop the excesses and therefore the threat to itself that we have seen in the recent crisis.'*
- Continuation of international coordination is essential. *'If we don't have a level playing field, there will be regulatory arbitrage and activities will simply move to less regulated jurisdictions.'*
- Most of those interviewed said it was still too soon to see how the new global regulatory regime would pan out. *'We've only just had the starting whistle on a match that will go on for years.'*
- **BVCA members** said to have become '***fall guys for capitalism'***, even though private equity posed no systematic risk. It was noticed that **investors had joined the sector in lobbying against** some of the changes.
- *'The most disturbing issue about the European regulatory framework is that **hardly anyone** involved **in the European Parliament** or in the Commission **understands what private equity does**.*
- '**Private equity** … hasn't asked for a penny from governments anywhere. Our remuneration system, in fact, is one that promotes longer term stability by **aligning reward with performance**.'

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