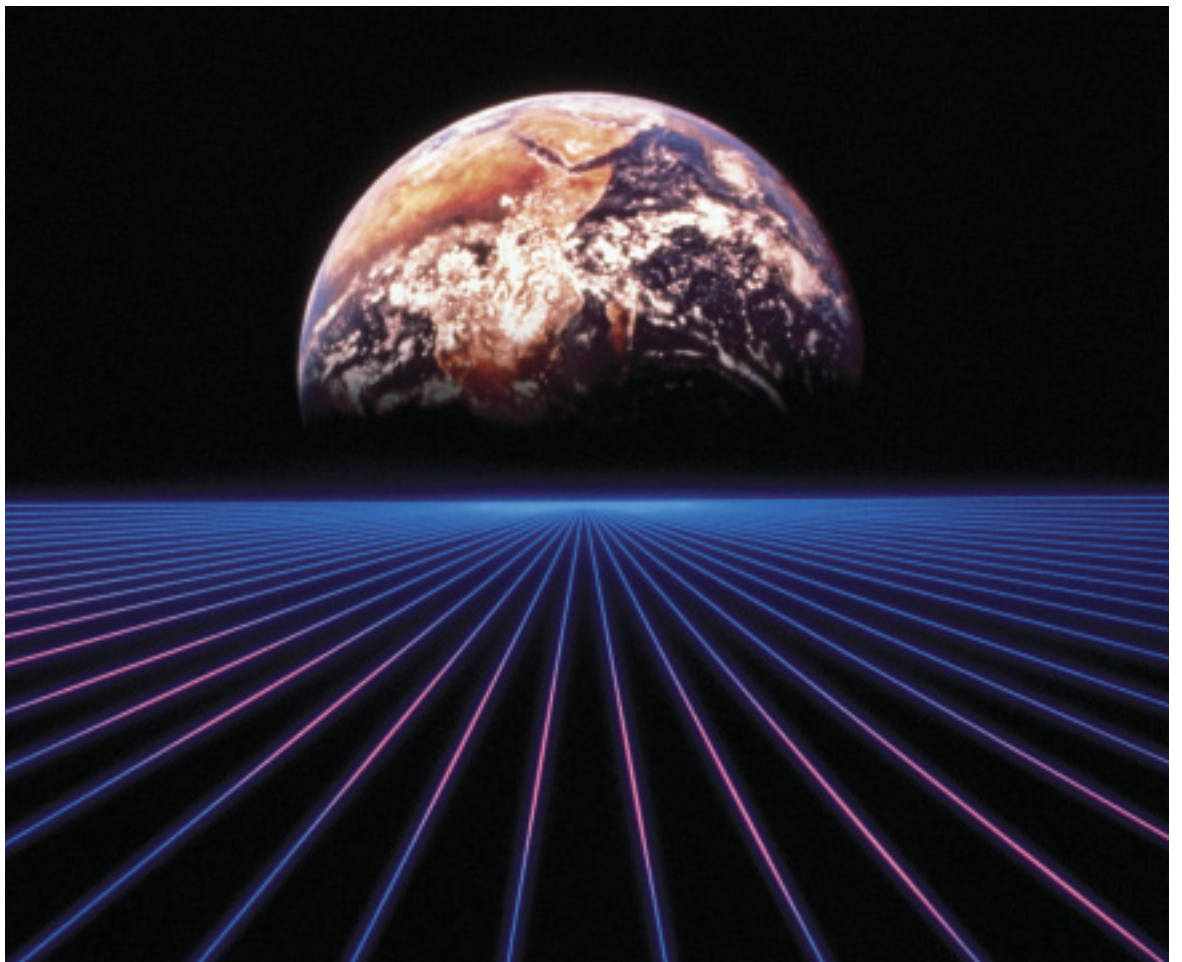


# **Business 2010: Financial services**

## Embracing the challenge of change



A report from the Economist Intelligence Unit  
sponsored by SAP



## Preface

*Business 2010: Financial services* is an Economist Intelligence Unit white paper, sponsored by SAP.

The Economist Intelligence Unit bears sole responsibility for the content of this report. The Economist Intelligence Unit's editorial team conducted the interviews, executed the survey and wrote the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor.

Our research drew on two main initiatives:

- We conducted a wide-ranging survey of 577 senior financial industry executives between November 2004 and January 2005, using both telephone and online surveying techniques. This was part of a global survey, *Business 2010*, conducted by the Economist Intelligence Unit, in which 4,018 private- and public-sector executives took part across 23 countries.
- To supplement the survey results, we also conducted in-depth interviews with several senior executives with particular knowledge of the financial services industry.

The author of the report was Michael Kapoor and the editor was Denis McCauley. Mike Kenny was responsible for design and layout.

Our sincere thanks go to the interviewees and survey participants for sharing their insights on this topic.

April 2005



## Executive summary

**T**he financial services industry has proven remarkably resistant to change over the years. No longer. Liberalisation may or may not break down structural impediments to change in many regions, but technology-led innovation and changing customer needs will lead many banks and insurers to rethink the way that they do business between now and 2010. Tougher competition resulting from consolidation in domestic markets will give this challenge an extra edge.

This white paper, sponsored by SAP and based on an Economist Intelligence Unit survey of 577 senior financial industry executives from around the world, suggests that managing the transition to a more fluid and competitive operating environment will require, above all, the attributes of flexibility and speed from industry players.

The successful financial services firms of 2010 will possess the following characteristics:

● **Adaptability.** The greatest challenge companies face in creating long-term value, say the largest portion of executives in the survey, is fostering swift adaptability to change. Banking business models, in particular, will require a high degree of adaptability, as technology is allowing non-banks to enter mainstream banking markets very cheaply, offering customers a much wider choice of products. “The fundamental economics of banking are changing,” observes David Llewellyn, professor of money and banking at Loughborough University in the UK. Banks will increasingly be forced to move away from selling their own products towards more of a broker approach, offering a range of products from outside suppliers.

● **Command of information.** A thread that runs throughout the research results is the importance of accurate, timely and appropriate information. Improving customer retention, for one thing, depends on it. Banks and insurers are sitting on a wealth of information about their customers, especially current-account holders. This offers distinct selling and servicing opportunities, and executives plan to focus information technology (IT) and marketing efforts on better identifying and analysing their customers’ spending habits and demands. More and better operational information will also be required to satisfy shareholders and regulators, particularly as Basel II banking regulations come into effect.

● **Command of technology.** Survey respondents expect technology innovation to do more to force business model change in the financial industry than any other factor. A majority also believe that technology will be central to their ability to adapt the business model and implement strategy, and that IT will become a source of competitive advantage for their firms. They need look no further than the growing number of Internet-banking providers for proof.

For most banks and insurers, customer relationships and service will be the area where IT delivers the most in terms of competitive advantage. By improving their ability to understand customers and to predict their behaviour, IT can help firms to fashion and bring together new services—their own and their partners—and create new channels to deliver them. However, IT may be developing into a strategic weapon, but financial services firms—like those in all industries—need to ensure that it remains an enabler of strategy and not its driver.



## Introduction

**I**t has been an unhappy decade for financial services providers. Boom and bust in equity markets, scandals over skewed investment advice and cases of poor risk management have caused turmoil for banks and insurance companies. A look forward reveals challenges, too. By 2010, the great consumer credit binge that has kept banks' results buoyant in recent years will have subsided. Meanwhile, margins are become tighter, and consolidation of some sort is in the offing.

What does the next five years hold for financial services providers? How will business models in the industry change under the force of competition and

shifting demand? To what extent will financial-sector players use technology to create a competitive edge? Where will they look for growth?

This report, sponsored by SAP, presents a vision of what the financial services landscape will look like in 2010, based on the expectations of senior industry decision-makers worldwide. In the following sections, we will explore the forces that are likely to alter industry business models, customer interaction and the role of technology in bringing about change. First, however, we will explore the key competitive opportunities and threats of the next five years.

### The *Business 2010* survey

This report is based on an extensive research programme conducted by the Economist Intelligence Unit between November 2004 and January 2005. At its core was the *Business 2010* survey, in which a total of 4,018 executives from around the world participated, including 577 from the financial services industry. The survey covered 23 countries in three regions; 50% of financial-sector respondents were based in Europe, 36% in the Asia-Pacific region and the remainder in the Americas.

Our survey sample was also very senior. Fully 46% of financial-sector respondents were C-level executives such

as CEOs, CFOs and CIOs, and the other 54% consisted of senior managers such as directors of marketing or planning. Participants also came from a spread of company sizes, with 60% reporting annual revenue of over US\$350m and 43% over US\$1bn. (For more detail on the sample and the results of the survey, please see the Appendix to this report.)

In addition to our survey, we conducted a series of in-depth interviews with senior financial-sector executives and independent experts on the financial services industry, and obtained their insights into how business would be conducted in 2010.



## Consolidation, growth and risk

Even under the concurrent pressures of globalisation, technological progress and liberalisation, the global financial services industry has remained remarkably resistant to change. But the senior industry executives who participated in the *Business 2010* survey do not expect this state of affairs to last. By 2010, competition will be fiercer as larger players emerge in consolidated domestic markets, technology continues to change traditional roles in the financial services value chain, regulation gets tougher and customer needs evolve.

**In your organisation, which of the following presents the greatest management challenge for creating long-term value? Please rank in order, with 1 being the greatest challenge**  
(% respondents)

	1	2	3
Swift adaptability to change	33	22	16
Capitalising on growth opportunities in emerging markets	21	13	13
Speed of innovation	18	27	13
Customer retention/acquisition	9	9	11
Cost control	6	12	27
Achieving return on investment in technology	6	9	10
Meeting corporate governance requirements	4	5	4
Human resource management	2	3	6

Source: Economist Intelligence Unit survey, 2005

In this environment, adaptability and speed will be highly desired attributes by financial services providers. Senior industry executives believe that fostering the ability to adapt swiftly to change will be their top challenge in striving to create long-term value for their firms. This is the opinion of the largest portion (33%) of financial-sector participants in the *Business 2010* survey. And 70% of them rank it among the top three challenges. Accelerating the pace of innovation is also rated as a key management challenge, along with boosting customer retention and improving cost control.

### The spectre of consolidation

Among the forces that will produce change is the near certainty of industry restructuring. Three-quarters of

survey participants from the financial industry say that consolidation of existing firms in their markets—with larger, stronger competitors emerging—will constitute a bigger competitive threat in 2010 than new entrants. And they are considerably more focused on the spectre of consolidation than executives from other industries in the survey. In geographical comparison, Italian, US, Brazilian and Japanese survey participants are among the most concerned about consolidation in their markets. At the other end of the spectrum are executives in China, the majority of whom (56%) believe that new entrants will constitute the primary competitive threat.

Underperforming European banks have become clear takeover targets,” notes David Williams, a Morgan Stanley analyst, referring to last year’s purchase of the struggling Abbey National of the UK by Banco Santander of Spain. But in fact, this acquisition looks a bit of an oddity. Despite expectations of international consolidation in the financial services industry, underperforming banks are more likely to be gobbled up by domestic rivals than by foreign ones over the next five years.

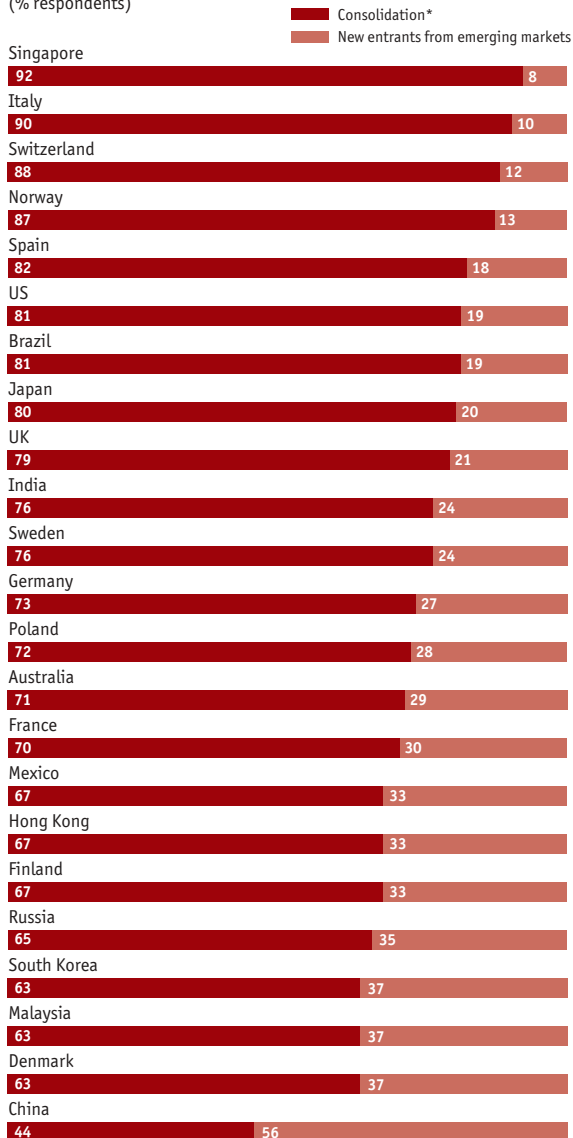
Expectations of ten or even five years ago of banks and insurers joining forces across borders to create large, full-service financial conglomerates have not panned out, and are unlikely to by 2010. For one thing, regulatory and cultural barriers to international expansion remain strong. For another, crossborder mergers will remain out of favour with both bankers and the capital markets. They are seen as high-risk, according to Mr Williams, who points out that banks relying on acquisitions for growth trade at a discount to their banking peers. Even big domestic deals are treated with some suspicion, suggesting that the days of mega-mergers between banks and insurance companies might be coming to an end.

The rapid divorce of Citigroup and Travelers in the



**What will be the more important source of competitive threat in 2010?**

(% respondents)



\*Consolidation of existing players into larger entities  
Source: Economist Intelligence Unit survey, 2005

US showed just how severe the culture clashes can be, and big banks have been fleeing the insurance market—by 2010 relatively few large banking groups will offer their own insurance products. Deutsche Bank recently sold its life insurance arm to Zurich, for example, and Swiss Re, a reinsurance giant, has taken over a number of insurance portfolios from European banks. At the same time, some middle-tier banks are continuing to acquire insurance firms in pursuit of “bancassurance” portfolios, and HSBC is one global player who may try its hand at an insurance acquisition in the near future.

Insurers will remain adequately capitalised and, more importantly, they will spend the next five years writing profitable business, rather than taking underwriting losses and relying on investment gains for profit. This will remove the need for a rich suitor, suggesting that few insurers will have sold up to banks by 2010. “The business model of the insurance industry has shifted,” says Thomas Hess, head of economic research at Swiss Re. “It’s no longer about making profits from investing premiums into the stock exchange, but about writing profitable underwriting business.”

While few banks seem interested in making a big acquisition abroad, domestic consolidation should occur in many markets, where the benefits of a merger outweigh the risks. In France and Japan, for example, severe bad debt problems have forced many financial firms to merge for survival. In other markets, clear opportunities to gain new customers and cut costs are still encouraging many banks to band together.

Progress will be fastest in the US, where the financial services industry remains remarkably fragmented even after a couple of rounds of consolidation. 81% of US respondents say that consolidation will be the greater competitive threat in 2010. Germany will also see more restructuring (and consolidation is rated the chief competitive threat by 73% of survey participants there). It remains full of small, often state-controlled regional banks, which helps explain why it is one of the least profitable banking markets in Europe. And if the response of 90% of Italian survey-takers are a judge, Italy is likely to see bank consolidation as well.

**Emerging market excitement... and caution**

Asked to name the most favourable growth environment between now and 2010, by far the largest number of financial-sector executives in our survey plumped for China (47% compared with 13% for the US, the second most frequent response). India also



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figures prominently as a growth market.

Yet foreign banks will find it difficult to extend their emerging-market client bases beyond the relatively small middle classes over the next five years, although ways are being found to serve a greater number of people (see box on Grameen, p. 11). Even HSBC, which owns a stake in the fifth biggest bank in China, remains unknown to most Chinese people. The head of HSBC's China operations, David Eldon, said recently that he was looking at China's "rapidly growing middle and upper class" and that the country was "top of HSBC's growth list". This narrow client base makes foreign banks reliant on general economic growth, and vulnerable to shocks, as was shown by the rapid exit of many banks from Latin America when the financial crisis swept the region three years ago.

### Compliance and governance

The spectre of restructuring may loom in many markets, but there are other issues focusing industry executives' minds as well, prominent among which are regulatory compliance and corporate governance. The compliance regulations of the Sarbanes-Oxley legislation in the US took effect in late 2004, and the risk management provisions of the Basel II accord take effect in 2007 in many parts of the world. While the latter affects only banks, firms across all industries are scrambling to come into line with Sarbanes-Oxley. Together, the two sets of requirements are forcing firms to make substantial changes in the way that they report financial results, how they measure risk and how they manage their capital.

"Never before has the financial services regulatory environment held as much uncertainty and risk, particularly for banking institutions, as it does today" says the global head of compliance of a large European bank. "And all indications are that this situation will continue to get worse before it gets better."

Nearly one-third of executives in our survey believe that tougher regulation will have a strong impact on how they operate between now and 2010, potentially

Please indicate whether you agree with the following statements about corporate governance

(% respondents)



Source: Economist Intelligence Unit survey, 2005

leading to changes in their business model. The impact of regulation is expected to be heaviest in the more developed financial markets, such as the UK, US, Switzerland and Singapore, where respectively 52%, 47%, 44% and 40% of respondents believe it will affect business models profoundly. Those in emerging markets such as China, Russia and Brazil are less concerned about the impact of more stringent regulation.

At the very least, tougher regulatory and compliance regimes will force companies to improve the accuracy and expand the scope of information reported to management boards, shareholders and regulators. The nature of reporting requirements will also change: 83% of respondents expect to be reporting to shareholders on a range of metrics beyond just financial numbers, to include human capital and customer satisfaction. Financial-sector executives from Europe are most certain on this count, with 90% agreeing that the more comprehensive reporting will be the norm, while the conviction of Asian executives is somewhat less overwhelming (70% of them agree with this view).

The stakes are high, but those firms that do stay ahead in this area may see benefits, not just in demonstrating compliance and improved transparency but, ultimately, in terms of better corporate governance. Scandals involving conflicts of interest and skewed investment advice have hit both banks and insurers in recent years, and improving governance is viewed as imperative to restore confidence. Nearly nine in ten survey respondents also view it as good for business, agreeing that brand value will increasingly be linked to good corporate governance.



## Financial-sector business models in 2010

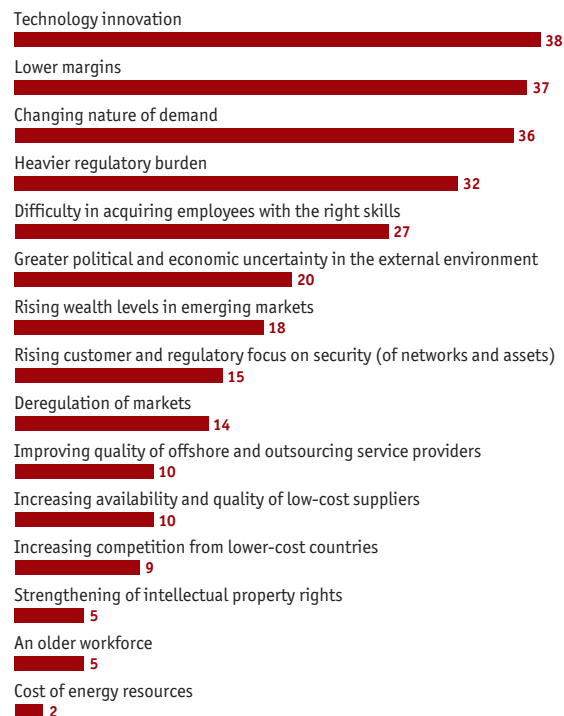
**E**ven without the emergence of vast financial conglomerates, the industry will undergo a transformation because technology is making banks' traditional role as financial intermediaries increasingly obsolete. They are therefore going to have to rethink the way they do business, and the way they view their customers. "The fundamental economics of banking are changing," says David Llewellyn, professor of money and banking at Loughborough University in the UK. Thus, business models will undergo substantial change over the next five years.

A total of 60% of the executives in our survey say that new business models will provide a greater source of competitive advantage to them than developing new products and services. But it is not necessarily the case for everybody: only 36% of China-based executives and 48% in Germany agree with this assertion. On the other hand, executives in South Korea (88% of respondents), Poland (78%) and Singapore (69%) say they'll be focused on changing business models to gain competitive advantage between now and 2010.

### New technology: the quiet revolution

"Technology is often a dominant driving force of structural change," asserts Mr Llewellyn. The survey respondents agree: technology innovation is cited as likely to be the single most important influence on business model change in 2005-10. Moreover, an overwhelming 84% of executives in the survey believe that technology will be crucial to their firms' ability to adapt the business model and to implement strategy. So IT will increasingly come into play in boardroom considerations of strategy. A smaller majority (59%) also believe that the primary role of IT will come to be that of boosting competitive advantage rather than simply driving cost-efficiency. Here, too, however,

**In your view, which of the following developments will have the greatest impact on your company's business model between 2005 and 2010? Please select no more than three**  
(% respondents)



Source: Economist Intelligence Unit survey, 2005

there is a wide variation of opinion among country respondents: 80% or more of South Korean, Swedish and Malaysian executives see IT as a primary source of competitive advantage in 2010, while other European respondents are less convinced, particularly those from Finland (20%), Norway (40%), Denmark and Switzerland (both 44%).

On one level, there is nothing new in such importance being accorded to IT: bankers realised long ago that information technology is changing their industry. Yet they have spent much of the past five years reacting in the wrong way. Now they are going to have to feel their way towards a new solution.

Until recently, bankers believed that IT would allow



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them to scrap expensive branch networks and staff as people would do more of their banking online or by telephone. Investors could get advice over the Internet rather than face to face, while things like credit scoring could be done automatically. But, as the banks rushed to shut their branches, service standards suffered. As a result, several big banks, from the US majors to NatWest in the UK, reversed their branch closure programmes.

Fast forward to 2010, and this will create a problem for both banks and insurance companies. They have no choice but to maintain expensive branch networks, but many of their mainstream markets can be entered easily by cut-price competitors working only online or on the phone who can grab business by offering higher rates on deposits or cheaper loans.

Some institutions, such as the Prudential insurer with its Egg Internet bank, have tried to fight back by launching their own virtual banks. Others, such as ING, have used the Internet to expand into mainstream retail banking in foreign markets, although Egg's experience in France shows that this might be more difficult than expected (see box). But overall, banks are seeing the writing on the wall: new technology makes it so easy for non-bank competitors to enter some markets that banks will have to find new ways of making money.

### Coming to terms with declining margins

Trailing right behind technology innovation on respondents' list of factors that will change business models is downward pressure on margins, and technology is helping to fuel this.

Lenders big and small are having to rethink their business models as technology allows more entrants into core markets, slashing margins. The Newcastle Building Society in the north of England saw results tumble last year, for example, as margins on home loans came down. Therefore "we embarked on a strategy of developing for other organisations system, product and service offerings rooted in our core skills and founded upon our unique IT capability," says chief executive Robert Holinshead. The Newcastle firm is now offering services such as specialist mortgage brokering and computer services to other banks and building societies—an example of the trend towards outsourcing that allows even small players to be cost-competitive.

Similar pressures will have an even more dramatic effect on the insurance industry, where telephone and Internet services already allow people to shop around freely. "In five years time, there will be no independent insurance companies left," says Robert Grosse, professor of international business at Thunderbird in the US. This may be an overstatement, but the old insurance branch model is certainly looking dated as companies move to online selling or team up with banks.

Those insurers that remain are increasingly looking to develop new business niches to expand away from over-crowded mainstream markets. Take Aflac, a Georgia-based insurance company that is growing fast by concentrating on workplace insurance, protecting people against accidents and long-term illnesses. By 2010, such behaviour will be widely imitated by the industry as a whole.



## You can't make an omelette ...

Both bankers and insurers are scared stiff by the threat from Internet and telephone rivals. Virtual banks don't have to maintain expensive branch networks, meaning low costs and the chance to grab business by offering cheap loans and high deposit rates. Add in some high-profile marketing, and they can grab business from anybody. They could also offer companies a cheap way into new countries. ING has had some success in the UK with its high-interest Internet accounts, for example. However, the experience of one of the larger UK Internet banks, Egg, suggests that cultural barriers could make it harder to expand abroad than theory suggests.

Egg was set up in 1998 by a big UK insurance company, Prudential, to offer a range of savings products and, more recently, credit cards. It has had considerable success in the UK, where its customer base has surged from 729,000 in 1999 to 3.1m last year. But it came a cropper when it tried to expand into France. It

invested £280m into its failed expansion into the country, entering in 2002 and pulling out in March this year after its French losses dragged the whole Egg Group into a £107m loss in 2004. "We decided the business required a greater level of investment than Egg was prepared to undertake," admits Mark Maguire, a spokesman.

Cultural differences played a role in Egg's French misadventure. Its marketing campaigns proved badly suited to local consumers, some of whom found them offensive. Equally, Egg found that it couldn't issue credit cards anything like as quickly in France as it could at home, neutralising one of its key strengths. And it received another dollop of bad publicity when it closed down some dormant accounts of a French bank it had acquired.

More broadly, Egg's experience casts doubt on the assumption that Internet banks are a good way forward for mainstream banks. Its UK results are healthy enough, but

Prudential tried (and failed) to sell its 79% stake in Egg last year, suggesting that Internet players like this are too small to make much of a difference to big players' results. Equally, bad debts on consumer loans rose by nearly half last year, leading analysts to say that it had expanded too fast into consumer lending in a highly competitive market.

This does not mean that Internet banks won't become big players eventually, and they certainly seem to have scared mainstream banks into offering their own clients better online services. Egg boasts that it is now the world's largest online bank, and that its example has forced other banks to introduce similar online savings products. Now Egg is concentrating on the UK credit-card market, of which it reportedly controls 6% after launching the country's first online-only credit card in 1999. Online banking is not huge yet, but it is already having a big impact on the general market.



## The customer challenge

**B**anks have been slow to react to past competitive threats to their customer base. For example, non-bank players such as GE Capital and carmakers long ago carved big chunks out of the loan market in many parts of the world. But there are two differences as the financial industry looks forward to 2010. First, fierce competition will have forced mainstream retail bankers to follow their upmarket brethren in private banking by offering their clients more outside investment products. Second, new technology will have made it possible for banks to glean far more information about their clients, opening up new lending opportunities and the chance

of selling customers a far wider range of products, both financial and non-financial.

Financial services executives around the world are very aware of the coming shift, judging by our survey. The largest portion of executives polled, 40%, expect that interaction with customers will be the area of their business that will change most between now and 2010. And when it comes to where IT will be most critical to the business, survey respondents are unequivocal, with 71% stating that customer relationships and customer service will be the area of greatest impact. Only respondents in Russia express a hint of deviation from this result: as many, 58%, say IT will be most critical in supporting the finance function as those who cite customer service.

## IT and customer retention

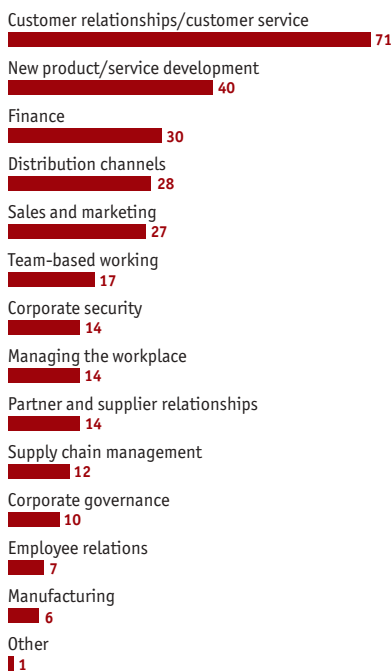
How will IT help to improve customer relationships? Partly by helping to improve firms' ability to understand their customers and to predict their behaviour. A total of 45% of survey respondents also said that "identifying changes in customer behaviour and needs" will be their primary innovation challenge over the next five years.

And by far the most important emerging set of technologies to financial-sector respondents between now and 2010 will be data management and analytics, essential not only to monitor credit quality but also to identify new sales opportunities among their retail customers. "You can tell an awful lot about people from their current accounts," says Billy Glennon, group CEO of Vision Consulting. Brazilian executives represent something of an exception, with the largest portion saying that emerging mobile technologies will be of greatest support to their firms over the next five years, more so than data analytics.

Mr Glennon identifies telephone banking and insurance as a key aspect to all of this, offering banks and insurers a chance to quiz punters on their requirements—one reason, perhaps, why our survey respondents see retaining key staff as so essential. Mr Llewellyn agrees: rather than trying to sell their own products exclusively, "banks will concentrate on trying to control the customer relationship". In other words, they will use their access to depositors to sell a whole range of products, increasingly relying on commission and fee income.

One effect of this will be that banks start to offer completely new types of products. In the UK, for example, Barclays Bank is already offering customers car breakdown insurance in return for taking out premium banking products. And Mr Glennon thinks that technology will soon allow customers to do a lot

**In which of the following areas of your business will IT be most critical in 2010?**  
Please check three only  
(% respondents)



Source: Economist Intelligence Unit survey, 2005



In view of changing customer expectations, what will be the most critical ways over the next five years in which IT can facilitate the improvement of customer relationships? Please rank in order, with 1 being the most critical (% respondents)

	1	2	3
Ensuring greater customer access to the corporate network	30	16	12
Increasing understanding of and ability to predict customer behaviour	20	16	31
Enabling customisation of products/services	14	15	11
Availability of performance management data on customer-facing processes to senior managers	12	30	16
Improving security of customer financial and operating data	9	8	10
Streamlining product/service design	7	8	7
Dynamic pricing capabilities	5	6	9
Improving visibility and efficiency of supply chain	3	3	4

Source: Economist Intelligence Unit survey, 2005

more self-management of their relationship with a bank, such as picking and choosing from a wide variety of products on offer: "Rather like a salad bar or buffet in a restaurant, the customer does some of the work and sees this as an attraction," he says. "A key to profitability in a service-dependent business such as banking is to facilitate such self-management." Banks

will also use their control of current accounts to assess whether people are safe to lend to, even if they fall beyond conventional credit criteria.

Some banks will also use technology to combine service offerings from partners in more collaborative arrangements. For example, Nordea, a Stockholm-based financial services group operating in Europe's Nordic and Baltic regions, is gathering information on other service providers in order to be ready to respond to the different types of needs its customers are expected to have. When a customer needs cheques reprinted with a new address, for example, Nordea will know to offer a host of services that could appeal to someone who is moving his household. Boosting its own profile and that of its partners, Nordea can use technology to present preferred partners for services such as home insurance and moving vans. The desired result is to increase loyalty to the bank—from both its customers and its partners.

## Grameen's village people

Western bankers have long looked enviously at fast-growing emerging markets. The trouble is, while a few have set up shop in places like Asia and central Europe, they have generally failed to spread the market for financial services beyond the middle classes. This often means that they remain irrelevant to most of the population. An example is Bangladesh, the vast majority of whose 140m citizens are too poor to use banks or obtain credit. But while mainstream banks remain on the fringes, another type of bank has revolutionised things by meeting the unique lending needs of low-income customers.

Grameen Bank has risen in the past 30 years from a quirky institution serving a few people in a single village to a bank with 4.2m customers. That figure should rise to 5m by the end of this year and to 10m in five years' time, according to deputy chief

executive, Dipal Chandra Barua. None of these customers are the type of people who can use normal banks, which means a vast new market has emerged, not to mention a way out of poverty for millions of people.

From helping village farmers to buy fertilisers and pesticides, Grameen moved to helping small businesses which had trouble securing loans of any kind. The scheme eventually expanded across the whole of the country, before Bangladesh's central bank ultimately took it over. Meanwhile, things exploded when Grameen began taking deposits from villagers as well as offering them loans. Relatively generous rates of 8.5% a year were offered on savings, still low enough for Grameen to lend at a decent margin and to become a profitable bank. It earned a profit of US\$4m-5m last year and expects to net up to US\$6m this year, with both loans and deposits totalling about

US\$350m.

Grameen has now applied for a licence to operate in towns as well as rural areas. "There are poor people in the towns, too," says Mr Barua, pointing out that the bank has already had success lending money to beggars who can then enter a trade. After helping to deal with the country's impoverished countryside, the aim is now to start curbing urban poverty as well.

This has also been the experience in other countries where the scheme has been set up. In neighbouring India, for example, Grameen has 1m customers and no bad debts. In the past year, the bank has also spread to China and even to war-torn Kosovo, and it has flourished in Burma. What's more, the idea has gained international recognition, encouraging organisations such as the World Bank to establish micro-credit banks in other countries.



## Conclusion

Industry leaders are aware that nurturing the ability to adapt to change is the single most important challenge facing their firms. They also recognise the need to be fast, and just as well. Technology is making it possible for small players to launch innovative new services quickly, and for customers to switch to them just as fast. In this sense, IT offers financial industry firms both immense opportunity and certain competitive threats. Executives realise that how they use IT will do much to determine their ability to face up

to the competitive challenges of the next five years.

Technology will be increasingly central to strategy, but firms must keep it in perspective. For one thing, IT is only as good as the people who use it. Finding, training and keeping talented managers and staff is another essential challenge in this context. For another, it should be seen as an enabler, not a driver of strategy. Concludes Bo Harald, director of electronic banking at Nordea: "Technology needs to be in the back seat and not at the steering wheel."

# Appendix: Survey results for financial services

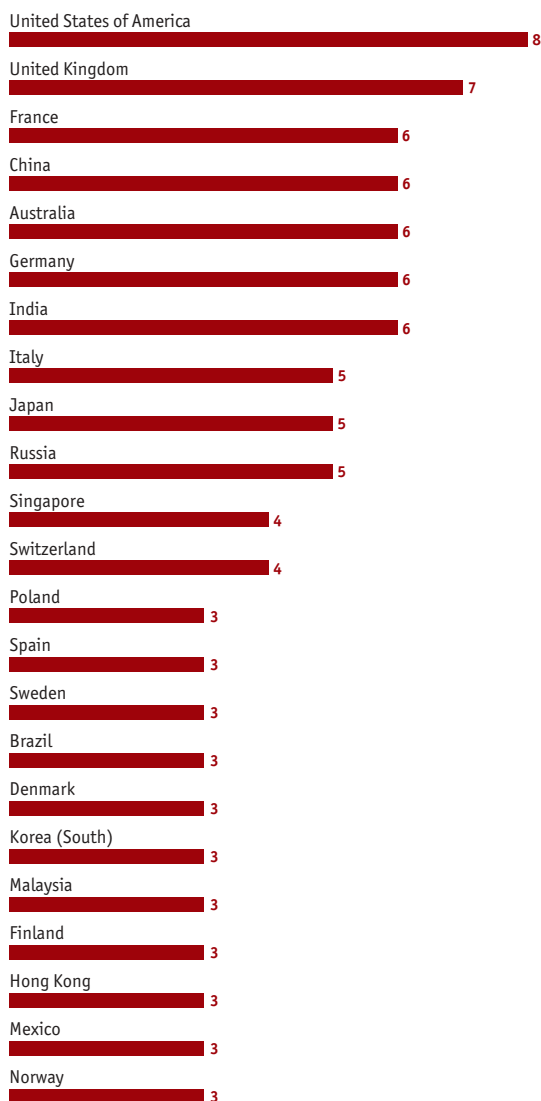
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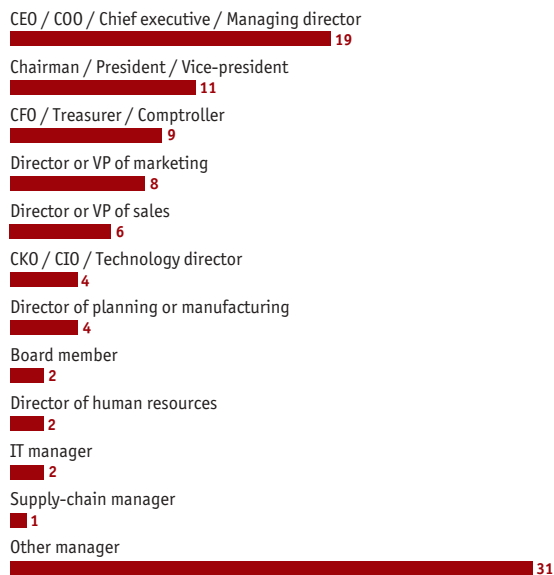
everyone who took part.

Please note that not all answers add up to 100%, because of rounding or because respondents were able to provide multiple answers to some questions.

## In which country are you located? (% respondents)



## Which of the following best describes your job? (% respondents)

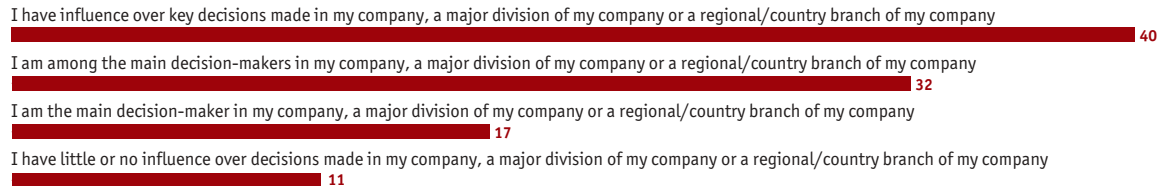


## Appendix: Survey results for financial services

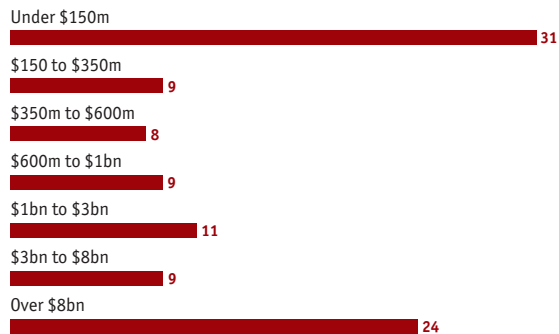
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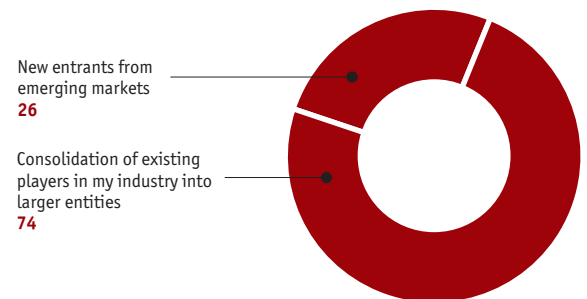
### What level of involvement do you presently have in decision-making within your company? (% respondents)



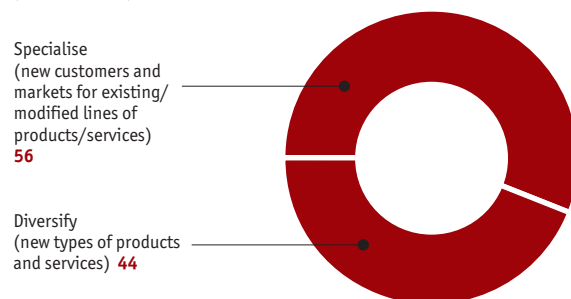
### What is your company's annual turnover in US dollars? (% respondents)



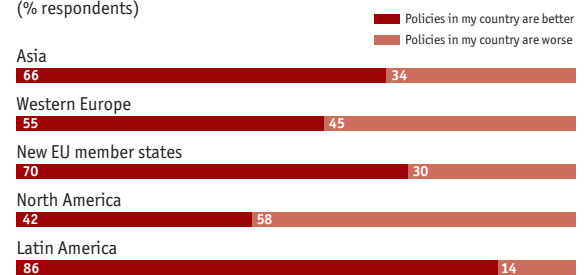
### What will be the more important source of competitive threat in 2010? (% respondents)



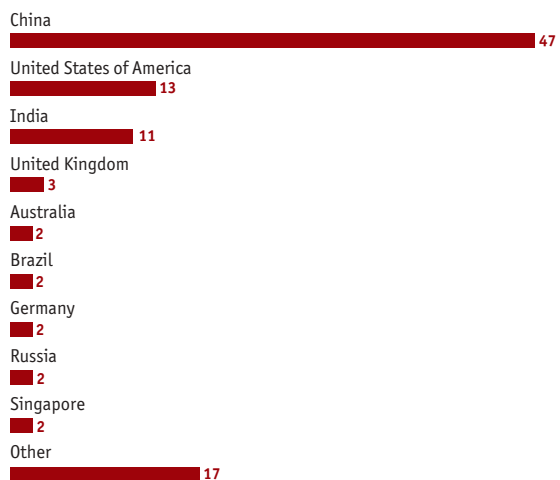
### Which of the following better reflects your strategy between now and 2010? (% respondents)



### How do the government policies pursued in your country compare with others in the following regions terms of favouring business growth? (% respondents)



**Which country do you think will have the most favourable business environment for growth between now and 2010?**  
 (% respondents)

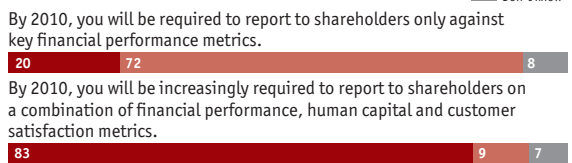


**What are the biggest human resource management challenges your company will face between now and 2010? Please select two only**  
 (% respondents)

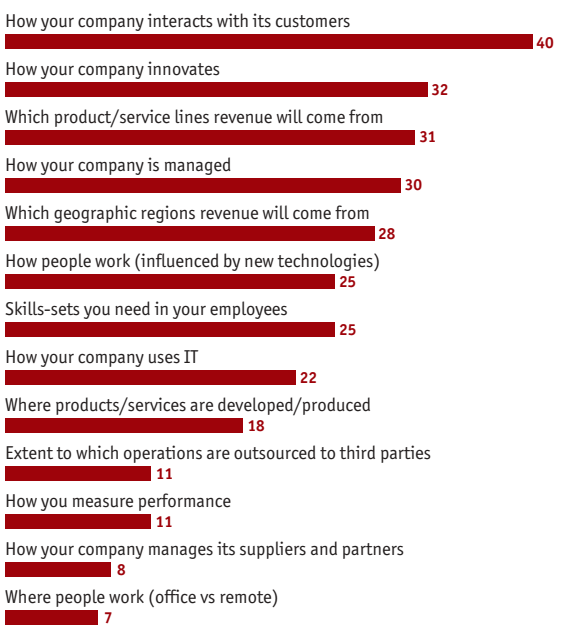


**Please indicate whether you agree with the following statement:**  
 (% respondents)

Yes  
 No  
 Don't know



**What will change most about the way your company does business over the next 5 years? Please select no more than three.**  
 (% respondents)



## Appendix: Survey results for financial services

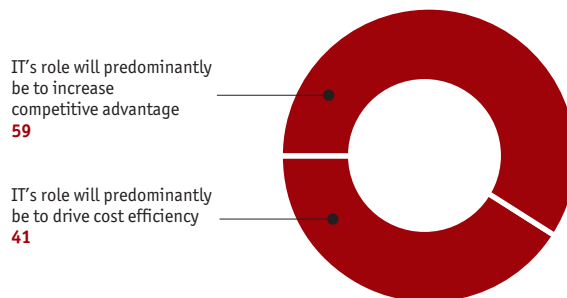
Business 2010: Financial services

Embracing the challenge of change

**In your organisation, which of the following presents the greatest management challenge for creating long-term value? Please rank in order, with 1 being the greatest challenge**  
(% respondents)

	1	2	3
Swift adaptability to change	33	22	16
Capitalising on growth opportunities in emerging markets	21	13	13
Speed of innovation	18	27	13
Customer retention/acquisition	9	9	11
Cost control	6	12	27
Achieving return on investment in technology	6	9	10
Meeting corporate governance requirements	4	5	4
Human resource management	2	3	6

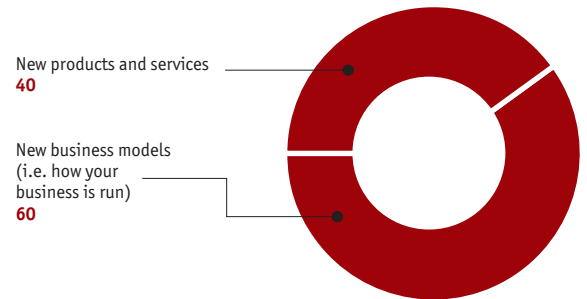
**Which of the following statements best reflects your view of the role of information technology in achieving your company's strategy goals over the next five years?**  
(% respondents)



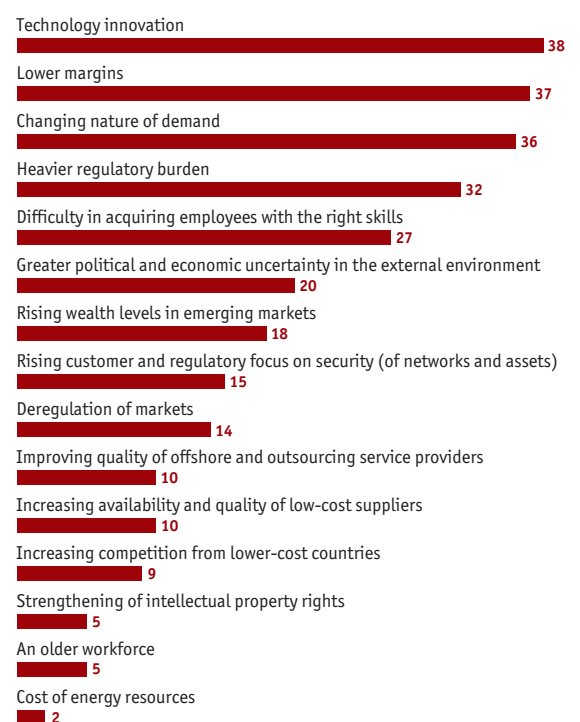
**Please indicate whether you agree with the following statements about corporate governance**  
(% respondents)



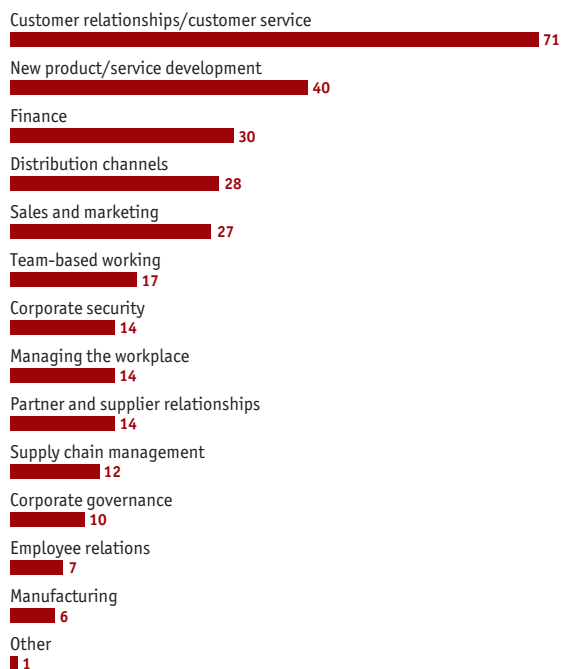
**Which of the following will be the greater source of competitive advantage between now and 2010?**  
(% respondents)



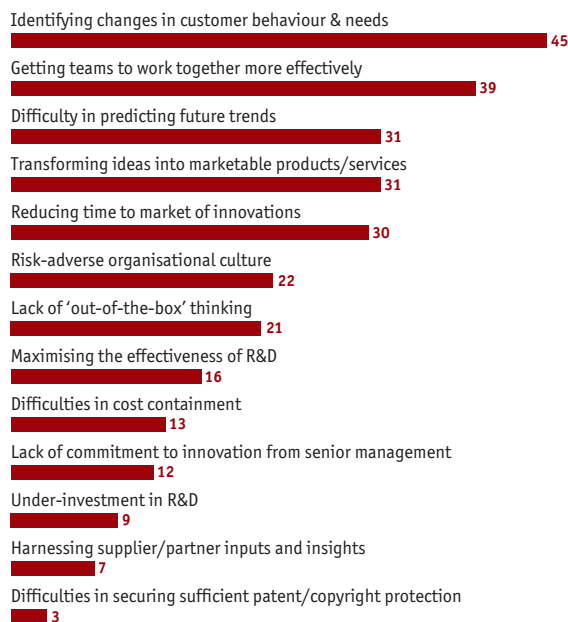
**In your view, which of the following developments will have the greatest impact on your company's business model between 2005 and 2010? Please select no more than three**  
(% respondents)



**In which of the following areas of your business will IT be most critical in 2010? Please check three only**  
 (% respondents)



**Which of the following will be the most significant challenges your organisation will face over the next five years when it comes to product/service innovation? Please pick no more than three**  
 (% respondents)



**Appendix: Survey results for financial services**

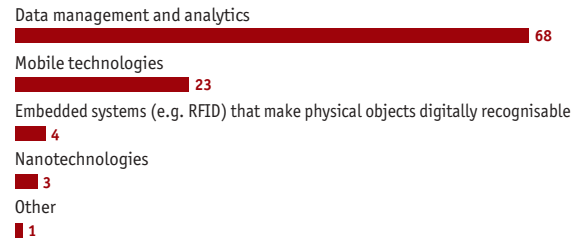
Business 2010: Financial services

Embracing the challenge of change

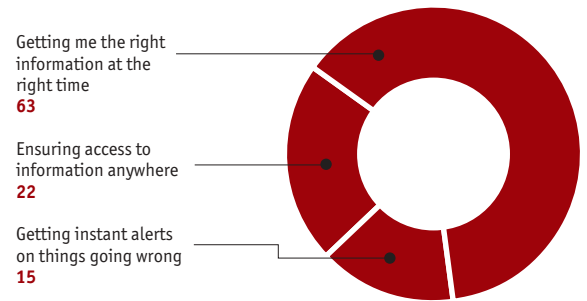
**Please indicate whether you agree with the following statements about business models in 2010**  
(% respondents)



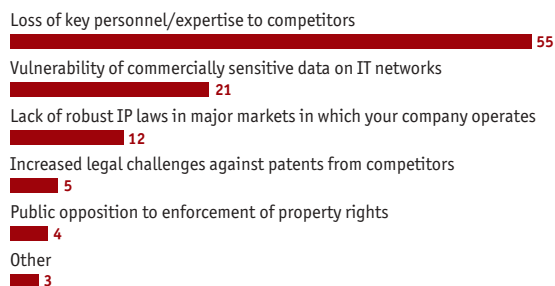
**Which of the following technologies will have the most impact by 2010 on your company's ability to innovate?**  
(% respondents)



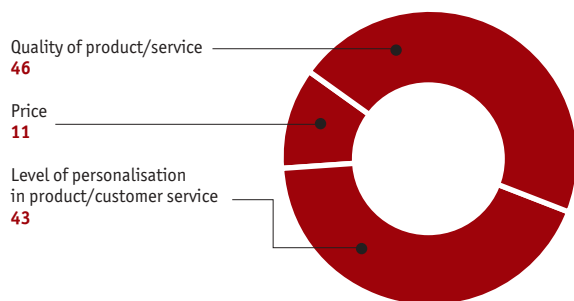
**What should IT most improve upon by 2010 to help you make better management decisions?**  
(% respondents)



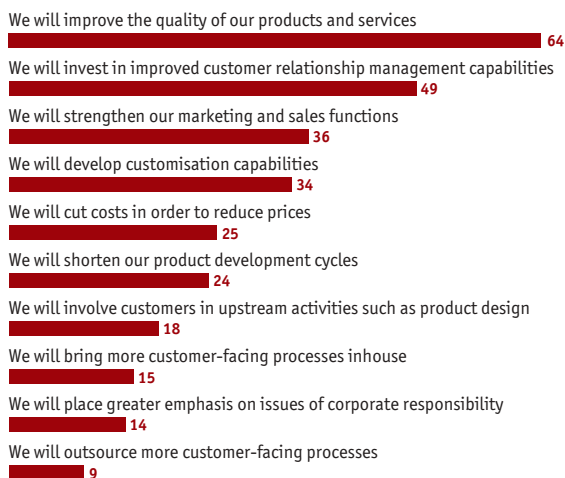
**Where do you expect the biggest threat to your intellectual property to come from in 2010?**  
 (% respondents)



**Which do you believe will be most important to your customers in 2010?**  
 (% respondents)



**In light of changing customer expectations between now and 2010, what do you envisage will be your company's critical business priorities over the next five years? Please check three only**  
 (% respondents)



**In view of changing customer expectations, what will be the most critical ways over the next five years in which IT can facilitate the improvement of customer relationships? Please rank in order, with 1 being the most critical**  
 (% respondents)

	1	2	3
Ensuring greater customer access to the corporate network	30	16	12
Increasing understanding of and ability to predict customer behaviour	20	16	31
Enabling customisation of products/services	14	15	11
Availability of performance management data on customer-facing processes to senior managers	12	30	16
Improving security of customer financial and operating data	9	8	10
Streamlining product/service design	7	8	7
Dynamic pricing capabilities	5	6	9
Improving visibility and efficiency of supply chain	3	3	4

Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsors of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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