C-suite barometer

Financial services insight

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The financial services sector has been at the centre of efforts to resist, and later recover from, the commercial consequences of the Covid-19 pandemic. As one of the sectors recently surveyed in the Mazars 2020 C-suite barometer, it returned broad optimism for the year ahead and a focus on technological transformation and sustainability. Reacting to the survey findings, Emmanuel Dooseman, Partner, Global head of banking, explains the impact of rescue packages, changing customer behaviour and the link between climate and credit risks.

1. The financial services sector returned the most positive growth outlook of all sectors, with 77% expecting to grow in 2021. In your view, what are the key reasons behind this optimism?

Unlike a lot of other sectors, financial services have largely been up and running throughout the pandemic. The position of banks in the economy makes them essential in times like today, with governments using them to channel rescue loans and bailout plans. It's a similar situation for insurance companies, which are investing in the economy over the long-term.

The sector has also seen substantial innovation in recent years, including the development of digital services and the rise of contactless payments, which has resulted in larger pooled revenues. Meanwhile, relatively new online platforms offering low brokerage fees have brought to financial markets an increasing base of investors, which has also increased the pool of revenues. The volatility of the markets during the pandemic and the associated trading opportunities have been clearly illustrated by the strong results of the brokerage businesses.

2. What is the risk that loans and bailouts won't be paid back?

Despite the warranted optimism, there is still risk. We have seen huge amounts of loans injected into economies around the world and credits risks exist when people who have been lent money may not be able to pay it back. However, banks that have made huge provisions as part of emergency loans and other state-backed measures have not had to use them so far. The economy is recovering in parts of the world and there's a chance that banks in some countries, including the US where unemployment has fallen ten points, will be able to release those provisions – which makes you think positively about the future. This optimism only builds when you consider the Q1 2021 earnings of large US banks.

Expectations of credit risks and losses are fair, but the solvency level of banks has been strengthened so much since 2008 that we do not face similar risks today. Today, a systemic bank can face the same amount of losses as Lehmann Brothers did when it collapsed, and it would not cause major disruption to the economy. It just happened with Archegos few weeks ago: a failure can always happen but not in the same way.

3. Are financial services businesses finding new opportunities despite the pandemic?

Let me ask you a question, when was the last time you paid in cash during this pandemic? Paying with a credit or debit card or smartphone or online has become natural. As more retail goes online and more people adopt digital and contactless payment, it naturally increases the fee-based potential for financial services. Just think about Apple and Google pay revenues and remember that they did not exist three years ago.

4. Are any sub-sectors struggling?

If you're in the building society business and you're only doing mortgage finance, then the chances of growth are very low at the moment. With interest rates low, zero and even negative in some places, credit union-style businesses are struggling to make money. Traditional banking and credit intermediation are generating far less revenues than they used to. They need to move into another space – providing new services, for example, so they do not limit their offer to just credit intermediation.

5. The most likely transformation for financial services in the next three to five years is technology-related, according to survey respondents. Does that match the priorities of the leaders you work with?

Banks and insurers in the 1970s were the first ones to use technology like we do now and, a decade later, most people on trading floors would use a computer, remember the movie Wall Street. What we're seeing now is the evolution to new tech-enabled services for customers, and robotics to improve the back office.

The impact of technology on financial services can be seen in two ways: how it increases the top line and how it reduces costs. The former is about using technology to offer new products to people to boost revenues. Technology helps financial services businesses better connect with clients; it increases market intelligence and allows the tailoring of products for customers in a better way. It is the reason why the sector can offer a series of innovation in the form of new types of loans, new payment forms, and new brokerage services - digital assets for instance. Using plug and play technology, which is also a new development, a payment service company can quickly offer customers new brokerage services by partnering with a brokerage company and hosting its technology on their platform.

The second way is reducing costs by having robots do repetitive tasks. Not only does it save money, but it also reduces the risk of error and makes compliance easier and more accurate.

6. The survey asks about the short and long-term priorities of business leaders: what would you advise financial services sector leaders put top of their agenda?

My advice would be to work on the creation of new products and new services to generate new revenue streams. Banking has always been a business of innovation. From the 1980s to 2008 it was mainly financial engineering and product based, now it is now more service based. Adapting your cost structure through the use of new technology tools would be my second piece of advice.

7. Sustainability is a top-five long term priority for financial services: what is driving the interest of sector leaders in sustainability?

Sustainability often gets reduced to climate change but in fact, it's about more than that: it's how you develop a business to work sustainably long-term and how you use resources in that.

The report's fairly negative outlook on sustainability surprised me but we know that financial services, bankers and insurance come at sustainability from a finance point of view. Take the cold weather wave in Texas earlier this year. By increasing the price of electricity, people were priced out and could not afford to use it in homes and businesses. That led to a fall in production and sales. As a result, they could not pay their rent and their loans. It shows how climate risks are intimately linked with credit risks.

In industries and markets where prices are going up and consumption is falling, business leaders need to run models on their future viability. Climate risks have a big impact on the market and lenders will ultimately stop working with those businesses that may struggle to pay them back because of climate issues. Sustainability is rightly a top priority for financial services: it makes sense for the business and the world at large.

You can see all the barometer results and learn what it means for businesses in the full C-suite barometer report.