



IBM Global Business Services

IBM Institute for Business Value

Toward transparency and sustainability: Building a new financial order

A Future Agenda Study

We surveyed over 2,750 industry participants and conducted secondary research to determine how firms must prepare for the future

- Which forces will disrupt the industry landscape?
- What will clients pay for?
- How will the bases for competition change?
- What steps must firms take today to win?

IBM Institute for Business Value



CFA Institute



Economist Intelligence Unit

The Economist

Scope

- Our analysis focused on selected financial markets industry participants:
 - Buy side
 - Sell side
 - Processors
 - Governments and regulatory bodies
 - Others: academics, think tanks, industry associations

Approach

- We surveyed 2,754 industry participants:
 - Qualitative interviews of 185 executives and government officials
 - Survey of 1,493 executives and government officials
 - Survey of 1,076 investors
 - 33% Americas, 35% EMEA and 32% Asia
- We conducted secondary research and developed quantitative models

Historically firms have benefited from pockets of opacity; returns of the past are over and firms must concentrate on delivering *sustainable* results

Summary of Findings

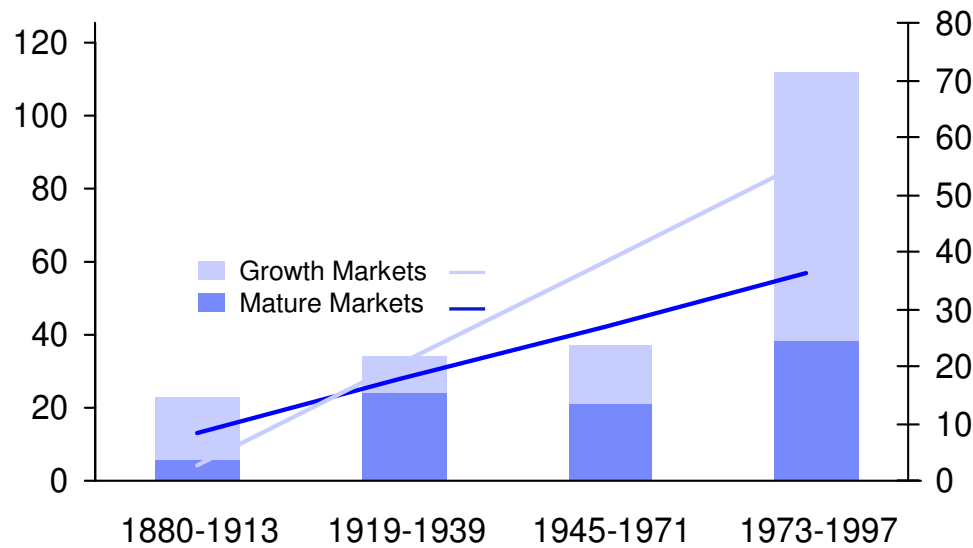
- Sophistication has outstripped our ability to handle it
- Together government and industry must balance stability and innovation
- Daily realities must deliver on brand promises
- To thrive, the industry must solve its identity crisis



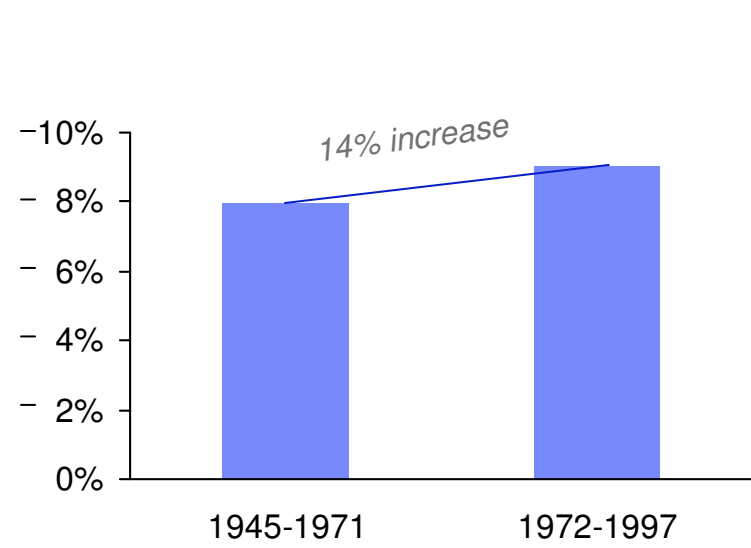
The industry will unbundle into more specialized organizations that are better equipped to monetize client needs.

Sophistication has unintended consequences; crises are occurring with greater frequency and magnitude

Frequency of Crises, 1880-1997
 (Number of Crises in Mature and Growth Markets across 139 Countries)

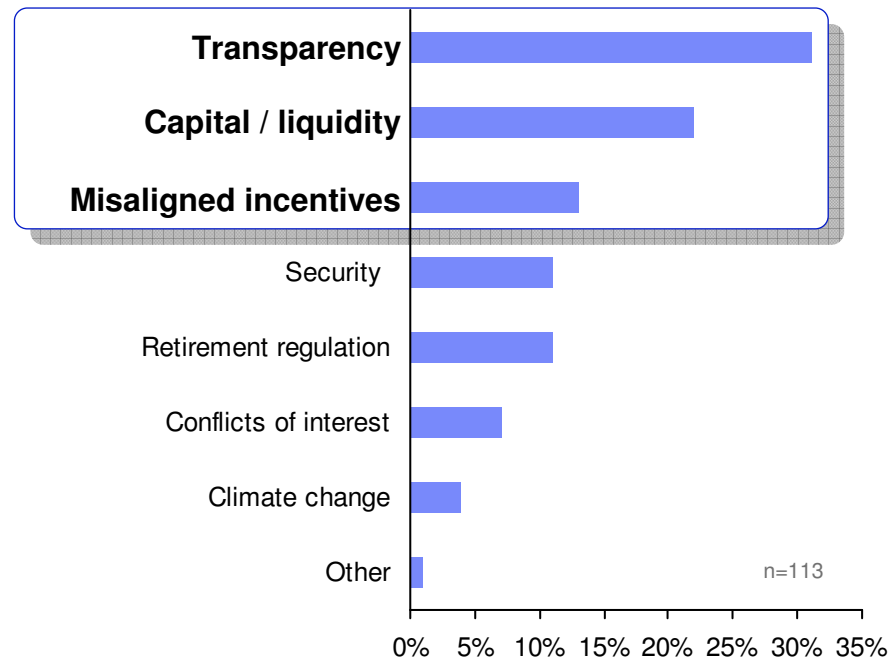


Size of Crises, 1945-1997
 (Output Loss in Mature and Growth Markets across 139 Countries)



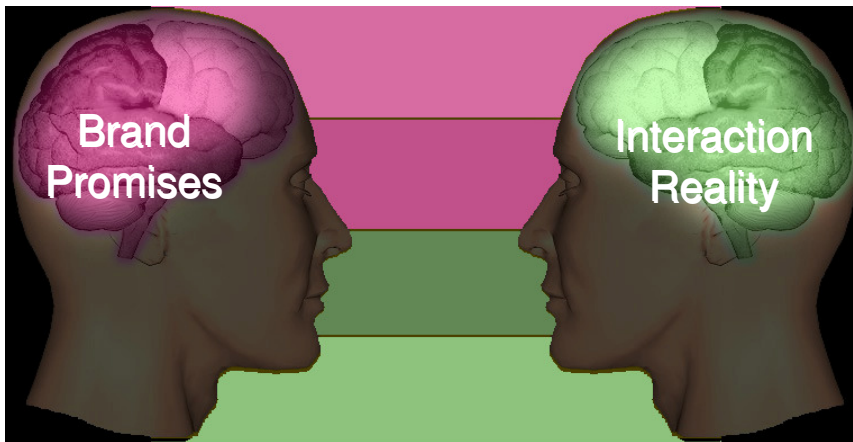
Today's financial architecture must be reconstructed to reflect the increasingly sophisticated environment

Anticipated Regulatory Response
(Percentage of Survey Respondents)



To move from crisis to health to wealth, the industry must ensure daily realities deliver on brand promises

Brand Promise vs. Interaction Reality



Client-centricity

Agility

Stability



Firm-centricity

Complexity

Volatility

Example Areas of Weakness

21%

Percent of providers understand what clients value

67%

Percent of organizations that rank themselves as 'moderate' to 'poor' in business and technology agility

84%

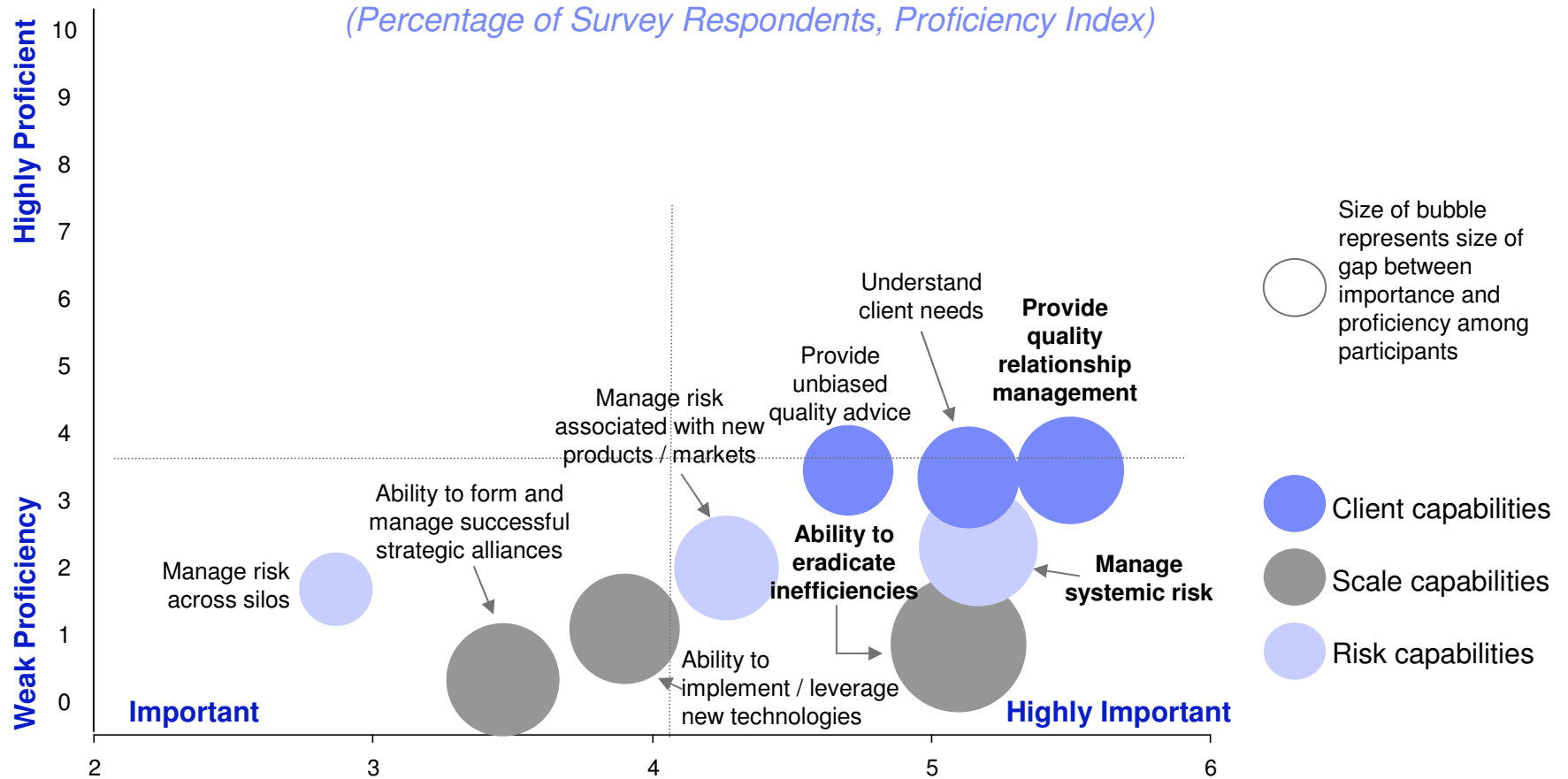
Percent of executives that don't feel comfortable with their risk management capabilities



Brand promise target audiences include: clients, shareholders, employees and governments.

To deliver on brand promises, firms must address areas of weakness

Importance vs. Proficiency of Capabilities (Percentage of Survey Respondents, Proficiency Index)

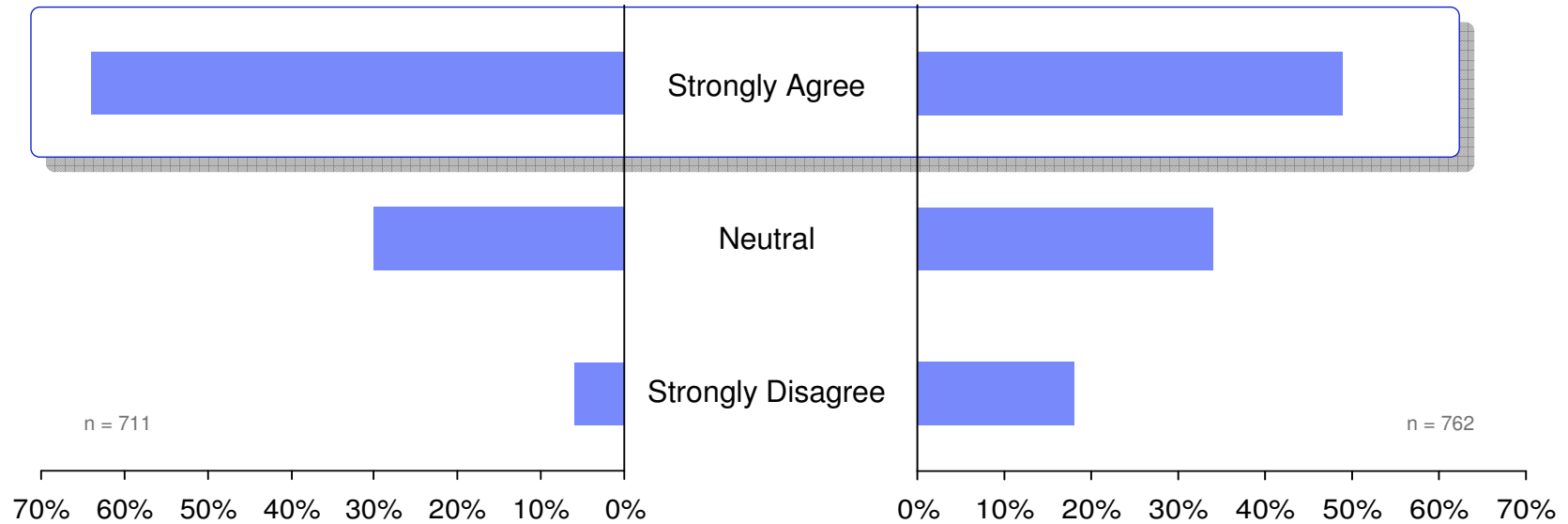


Firms must must address the unknown client by aligning interests

Trust Gap

Client Opinion: Providers offer products in the firm's best interest
(Percentage of Survey Respondents)

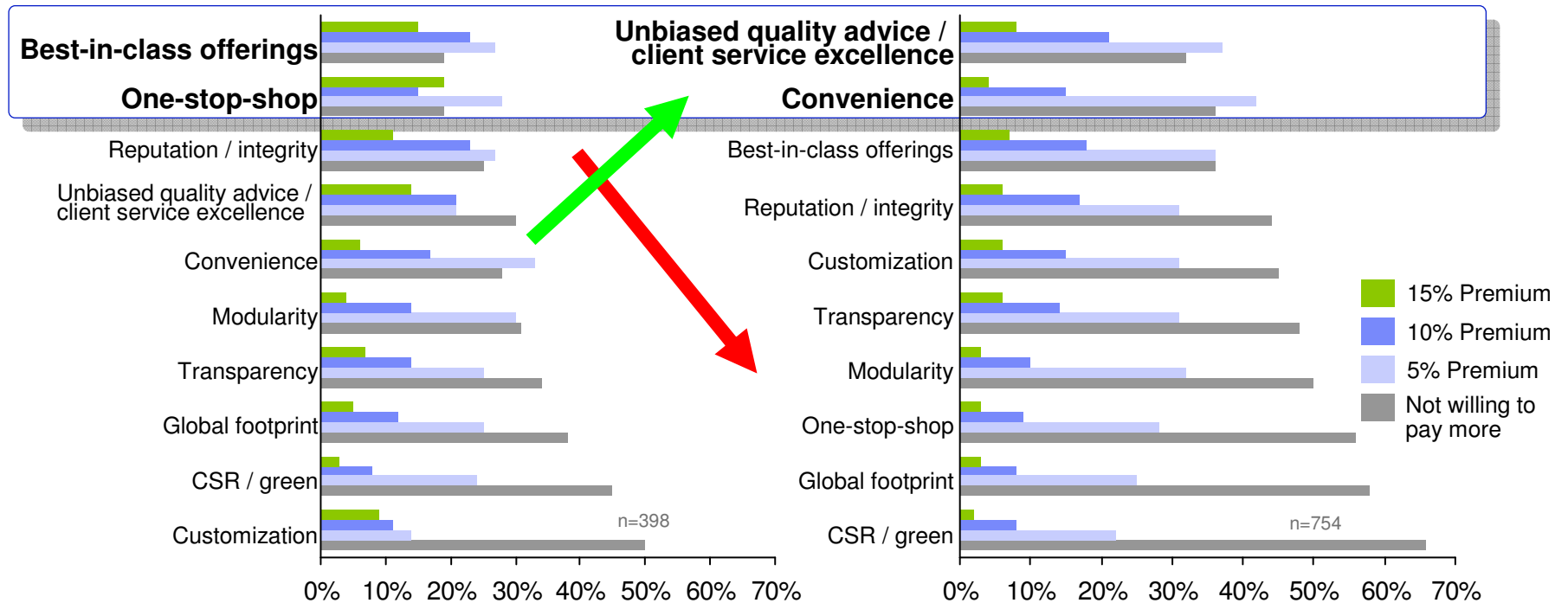
Provider Opinion: Providers offer products in the firm's best interest
(Percentage of Survey Respondents)



Providers must overcome their product-focused mindset to deliver on what clients actually value

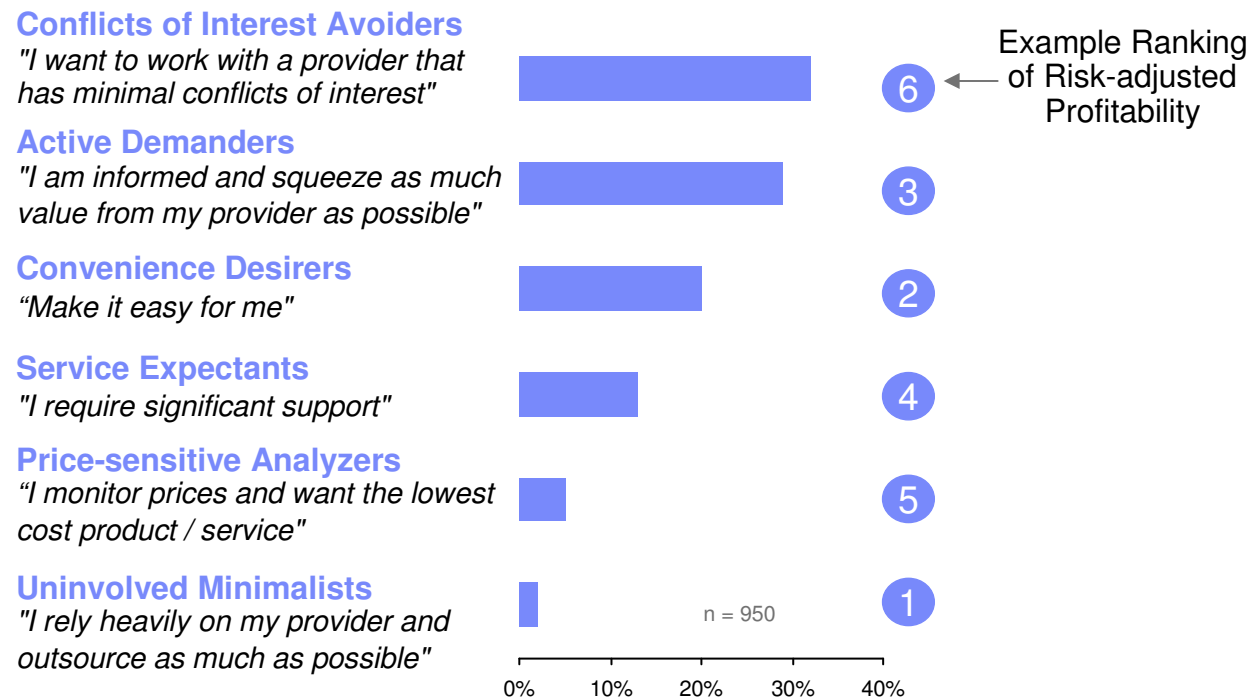
Provider Perceived Premiums
(Percentage of Survey Respondents)

Client Indicated Premiums
(Percentage of Survey Respondents)



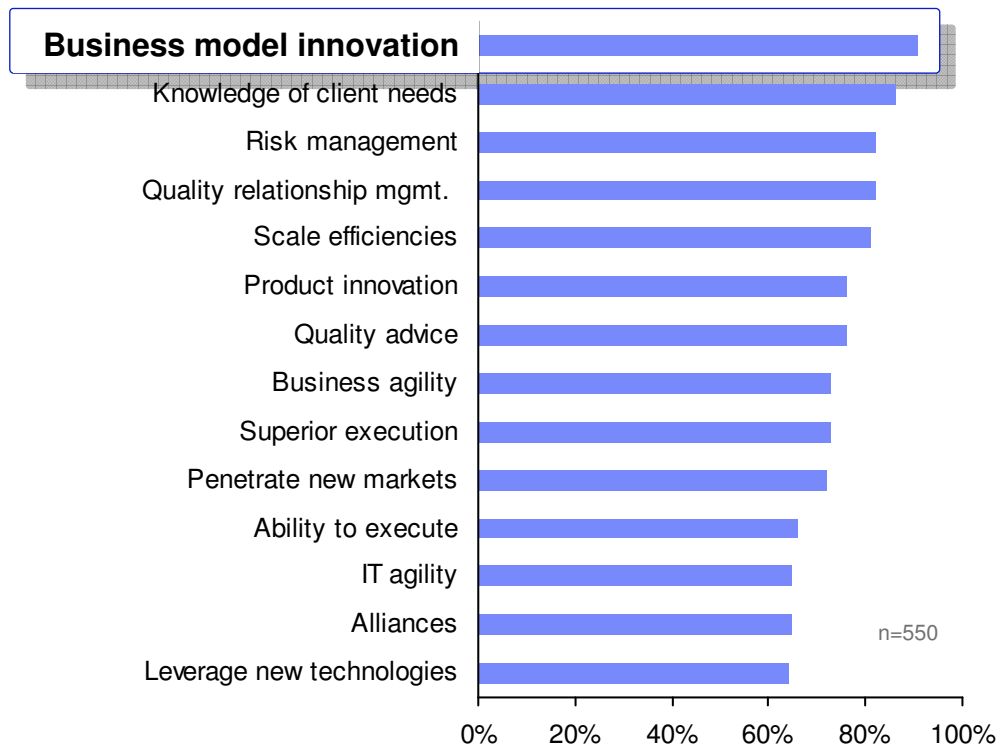
Firms must also re-segment clients based on behaviors and attitudes

Client Segments Based on Behavior and Attitudes (Percentage of Respondents)

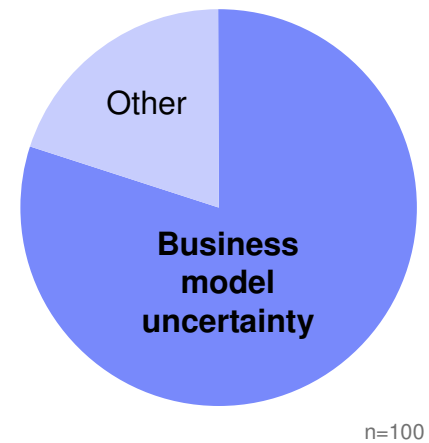


To thrive, the industry must deliver on brand promises through business model innovation; firms currently have an identity crisis

Strategic Initiatives
(Percentage of Survey Responses)

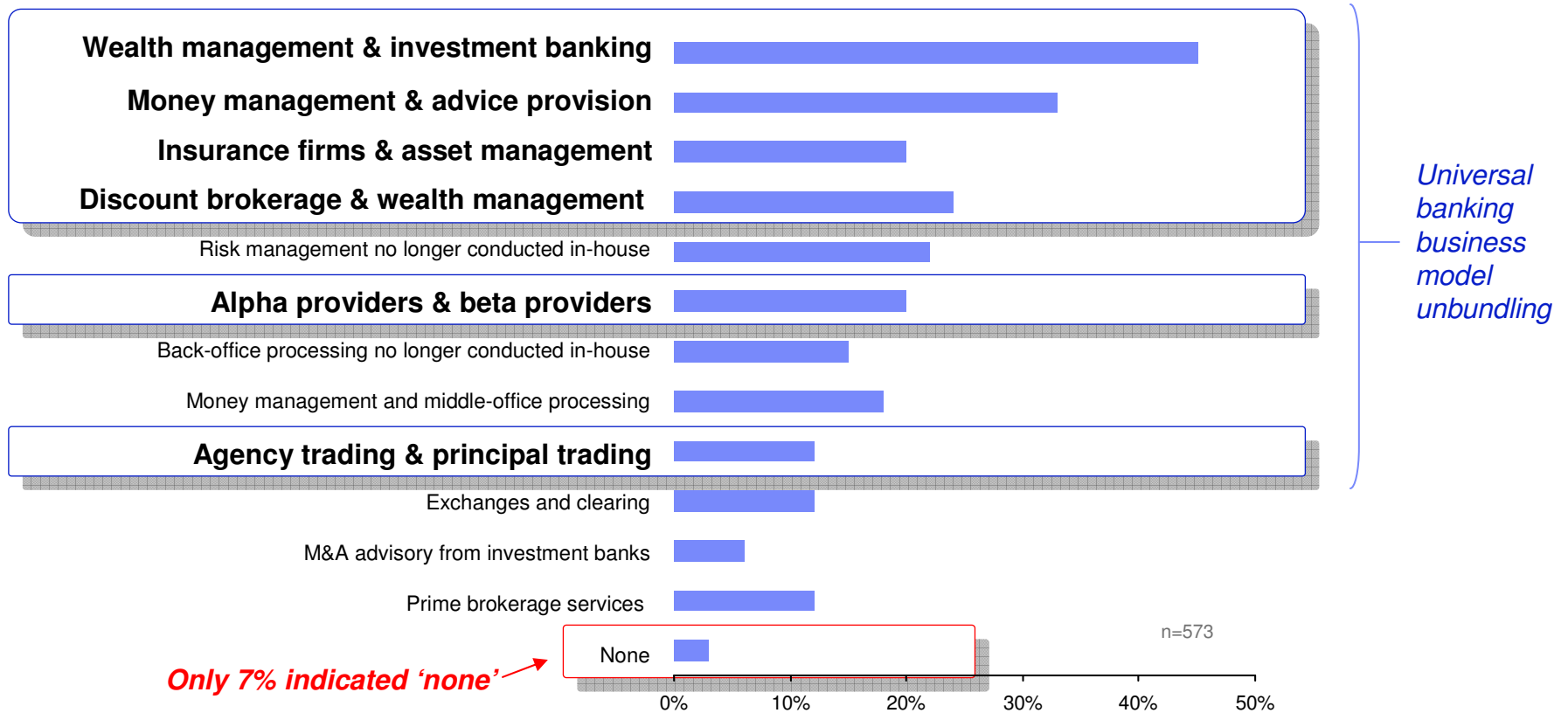


What Keeps you Awake at Night?
(Percentage of Executives Interviewed)



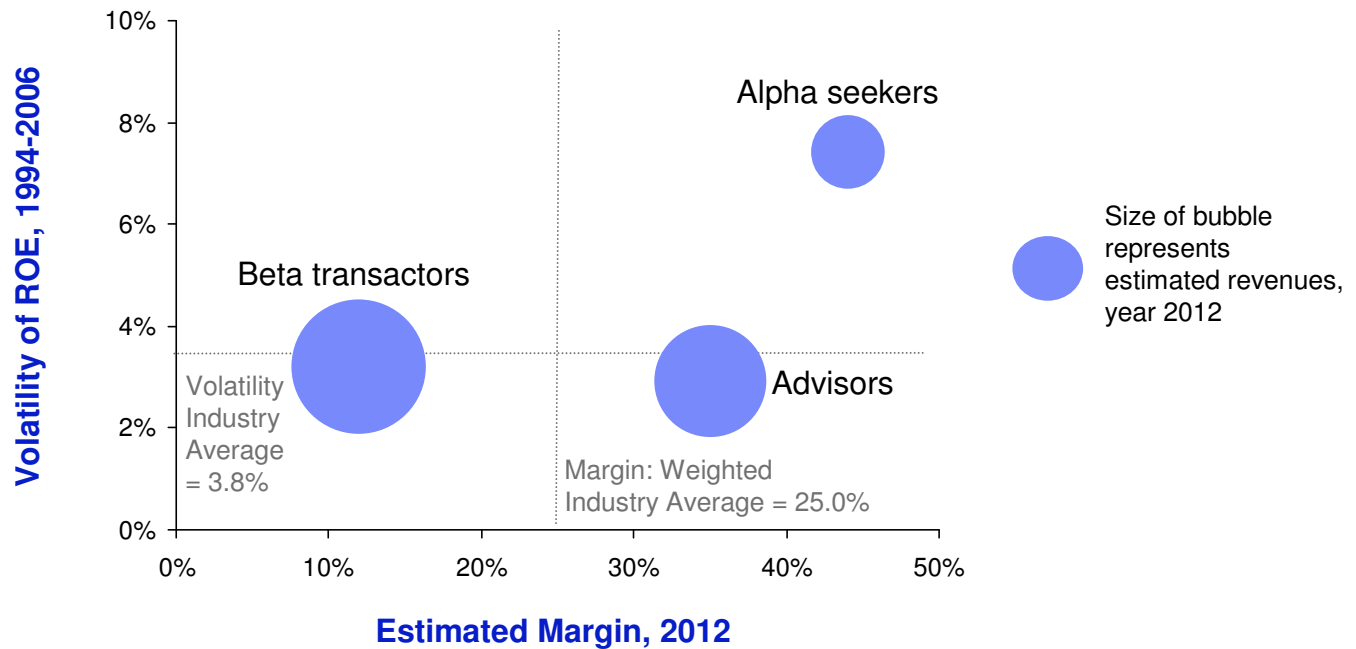
Over 90% of executives believe the industry will unbundle

Anticipated Industry Unbundling (Percentage of Survey Respondents, Rank Ordered by Total)



Ultimately the industry will specialize

Industry Specialization, 2012
(Estimated Margin and Earnings Volatility)



The industry will strengthen as it learns how to deliver *sustainable* returns

Key Questions

- Which forces will disrupt the industry landscape?
- What are the key values?
- How will the bases for competition change?
- What steps must firms take today to win?

Thank you!

***IBM Institute for Business Value
Fact-based strategic insights for senior executives***

This study is a product of the IBM Institute for Business Value (IBV). The IBV provides senior executives with strategic insights that address critical challenges faced by organizations in their quest for business value in today's rapidly-changing, technology enabled environment. The Institute provides research and analysis, dialogue with industry experts, and client events focused on critical industry and cross-industry issues.

About the Institute

Formed in 2001, the IBM Institute for Business Value is staffed with experienced industry consultants worldwide with primary offices in Cambridge (Massachusetts), New York, and Amsterdam. Throughout the year, IBV teams collaborate with business executives from leading companies and with IBM professionals on studies that can help you to:

- Anticipate industry changes***
- Identify and assess strategic alternatives***
- Quantify the expected return on key initiatives***
- Formulate roadmaps for moving forward***
- Determine the best metrics for measuring success.***

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