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Redrawing the lines: Technology's growing influence on business

2017 Japan-US Forum

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Agenda

- 1. What's happening** *~ Five global megatrends and technological breakthrough*
- 2. Highlights from PwC's 20th CEO Survey**
- 3. PwC Global FinTech Survey 2017**
- 4. Discussion points** *~ How business leaders are grappling with technological disruptions*

Appendix



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What's happening

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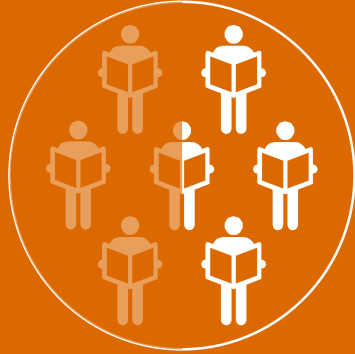
Five global megatrends are fundamentally disrupting business...



Shift in global economic power

68%

Companies that will have at least one global business unit head based in Asia by 2017



Demographic and social change

3.3 million

Additional workers – The 65+ labour force in the US almost doubled between 1990 and 2010



Technological breakthrough

\$300

Cost of today's Sony Playstation, which has the computing power of a 1997 military supercomputer



Rapid urbanisation

400 million people

The increase in China's population since 1980

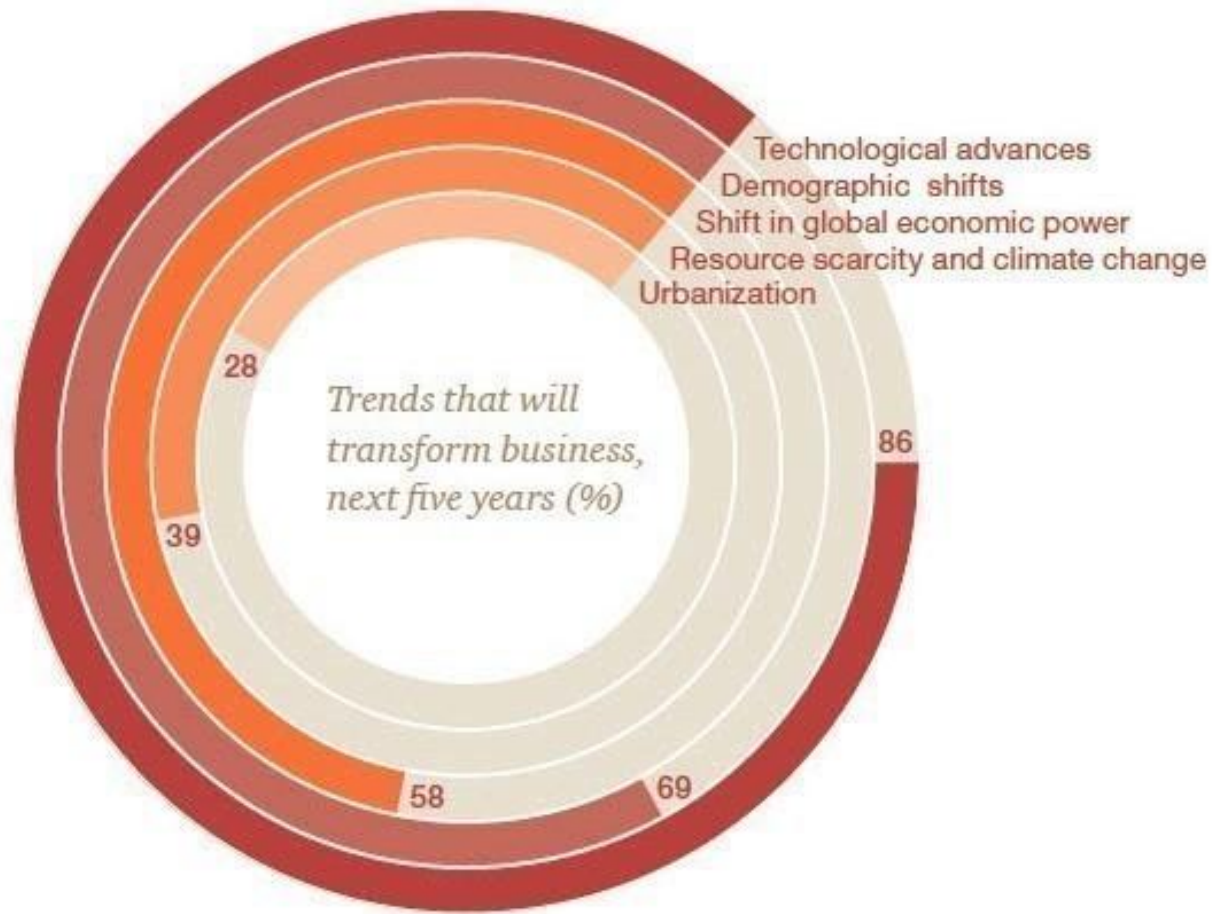


Climate change and resource scarcity

50%

Increase in the demand for energy – by 2030

Most CEOs believe that technology will transform and disrupt their business.



86%

of US CEOs say technological advances will transform their business over the next five years



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Highlights from PwC's 20th CEO Survey



Over the last 20 years, CEOs have witnessed tremendous upheavals as a result of globalization and technology

In trade



- 4x trade flows
- 5x financial flows
- BRIC economies

In technology



- Exponential rise in global online traffic
- Google, Wikipedia, Facebook, Alibaba

In society



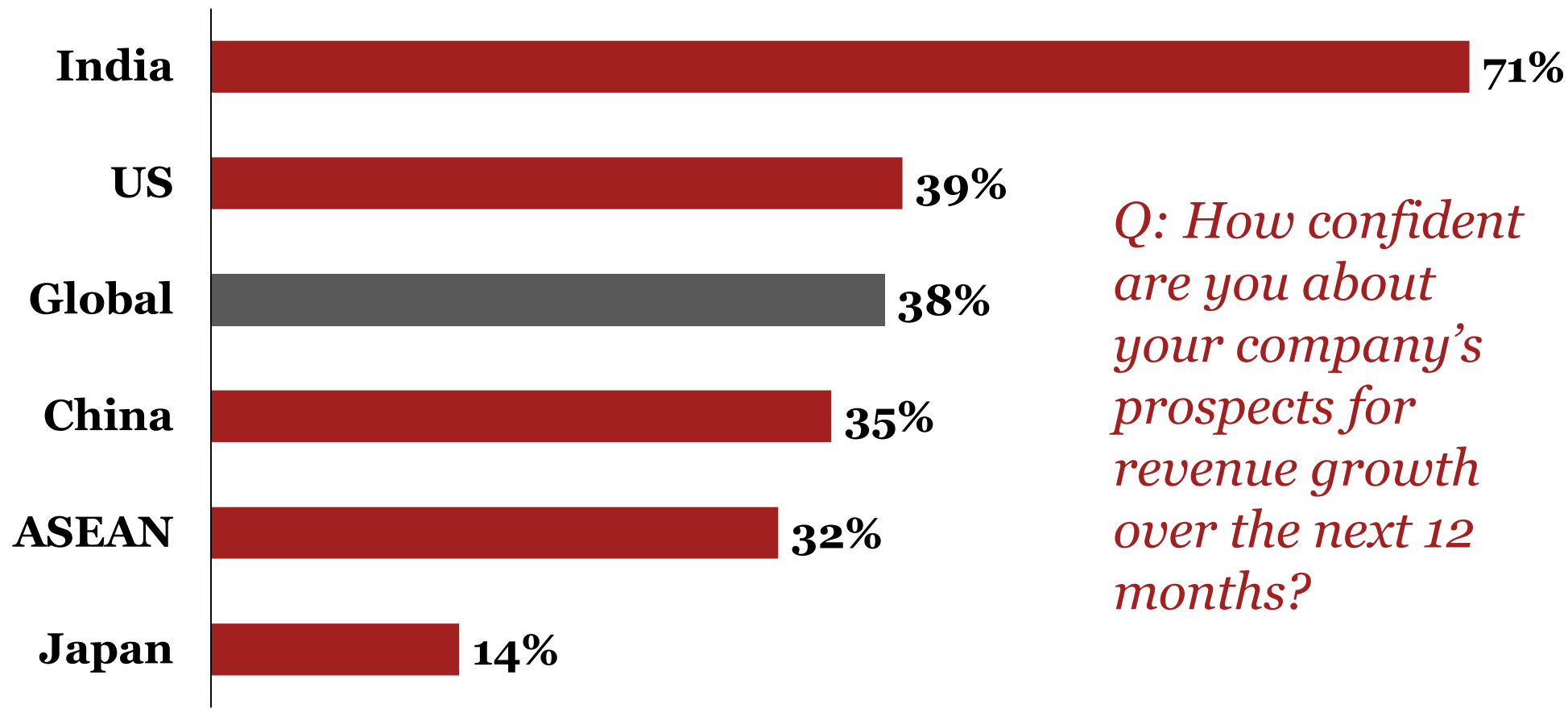
- Lifting 1 billion out of extreme poverty
- New emerging middle class

... however

- Inequality is on the rise
- Mistrust in business
- Growing social instability
- Rise in populism

Percentage of CEOs that were very confident about prospects for growth

The percentage of Indian CEOs that were very confident about near-term prospects for growth was the highest globally. In contrast, Japan was among the lowest – only ranking slightly higher than Venezuela.



Q: How confident are you about your company's prospects for revenue growth over the next 12 months?

Uncertainty has become a way of life

CEO short-term confidence has risen compared to last year.

Question: How confident are you about your company's prospects for growth over the next 12 months?

Respondents with "Very Confident" (%)

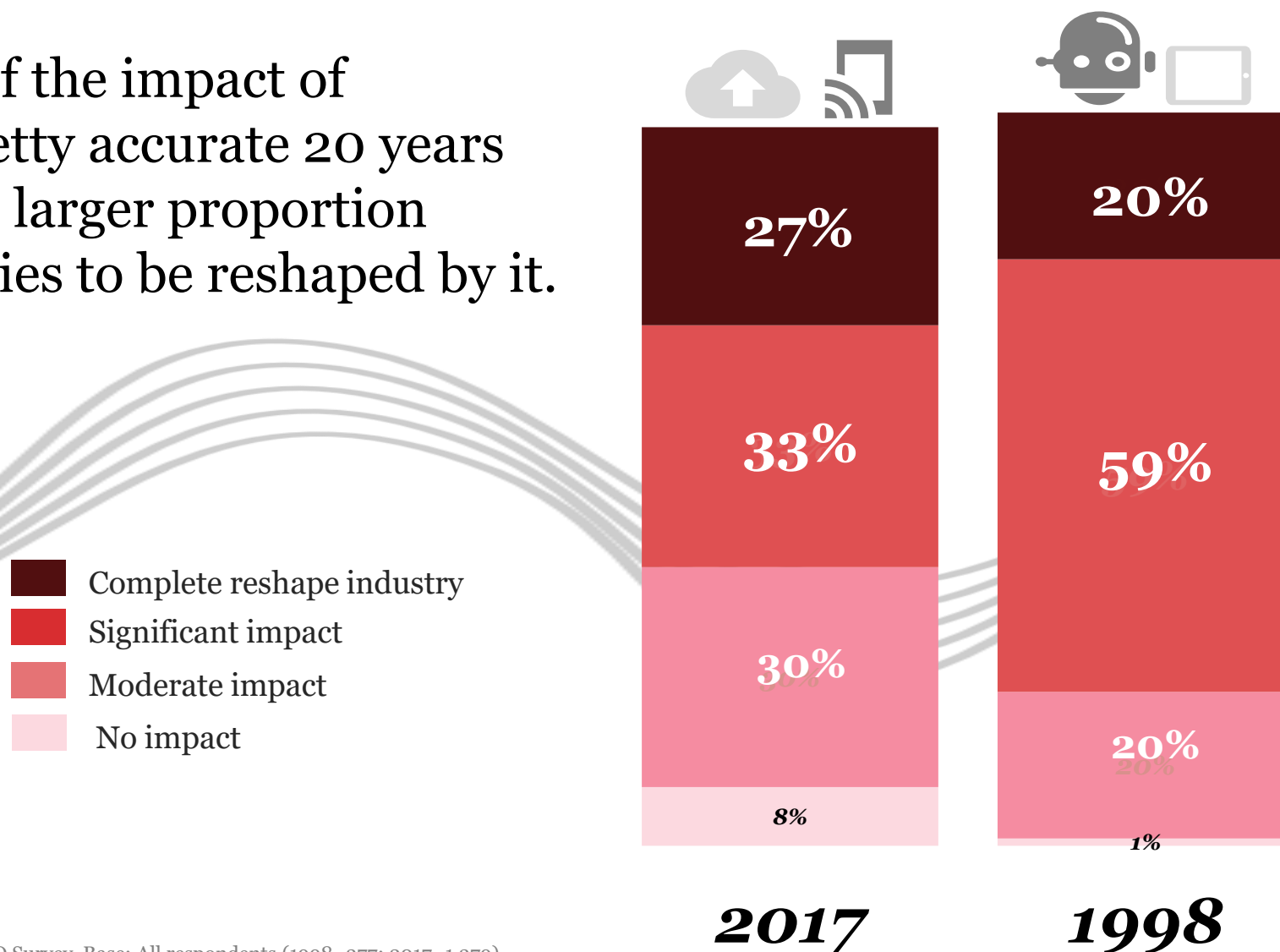


38%
are "very confident"



Waves of change

CEOs' predictions of the impact of technology were pretty accurate 20 years ago. Today, an even larger proportion expect their industries to be reshaped by it.



Source: PwC, 1st Annual Global CEO Survey and 20th CEO Survey. Base: All respondents (1998=377; 2017=1,379)

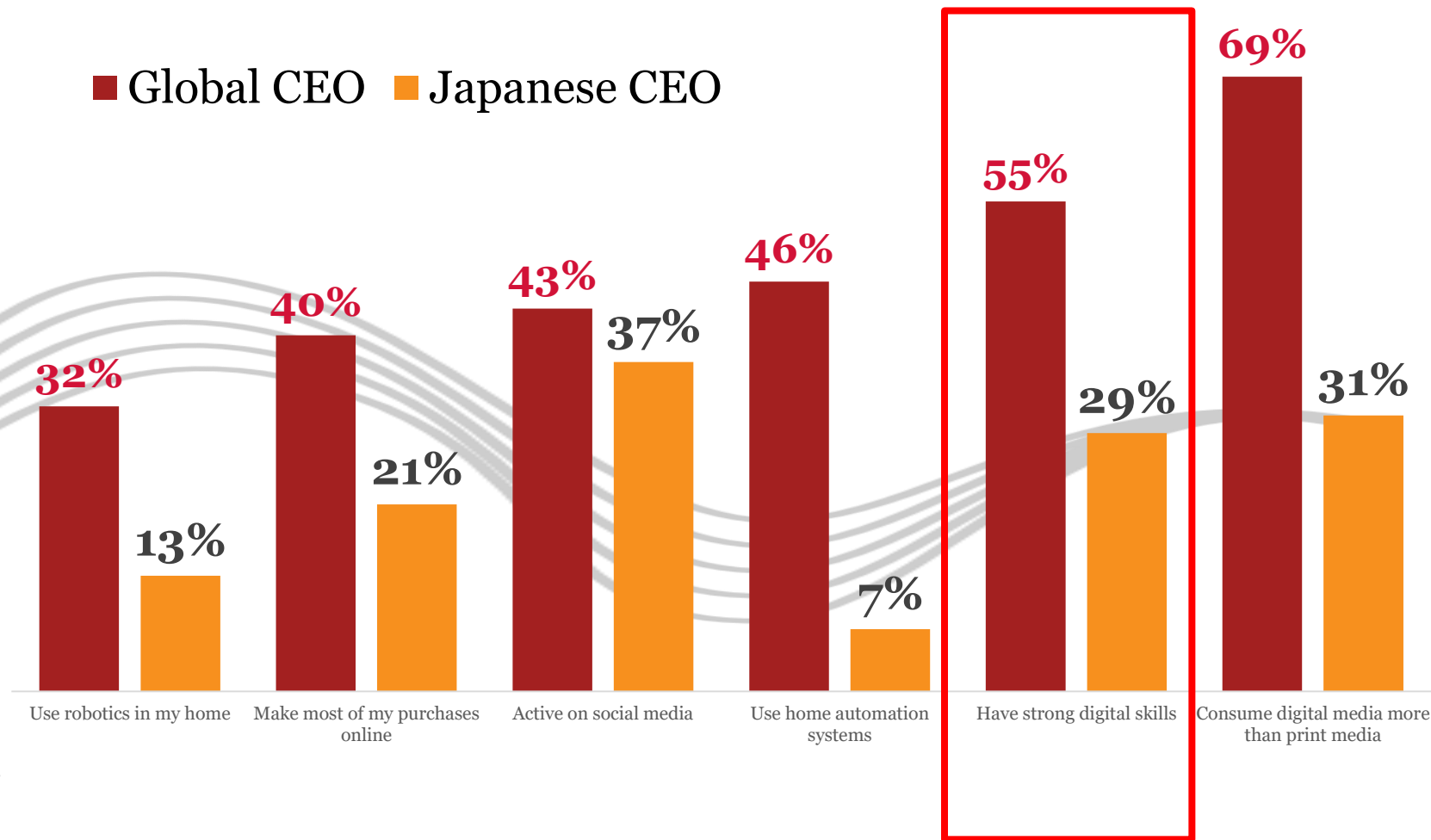
CEOs' digital literacy

Is digital literacy a requisite for business leaders to create and lead our future?

29%

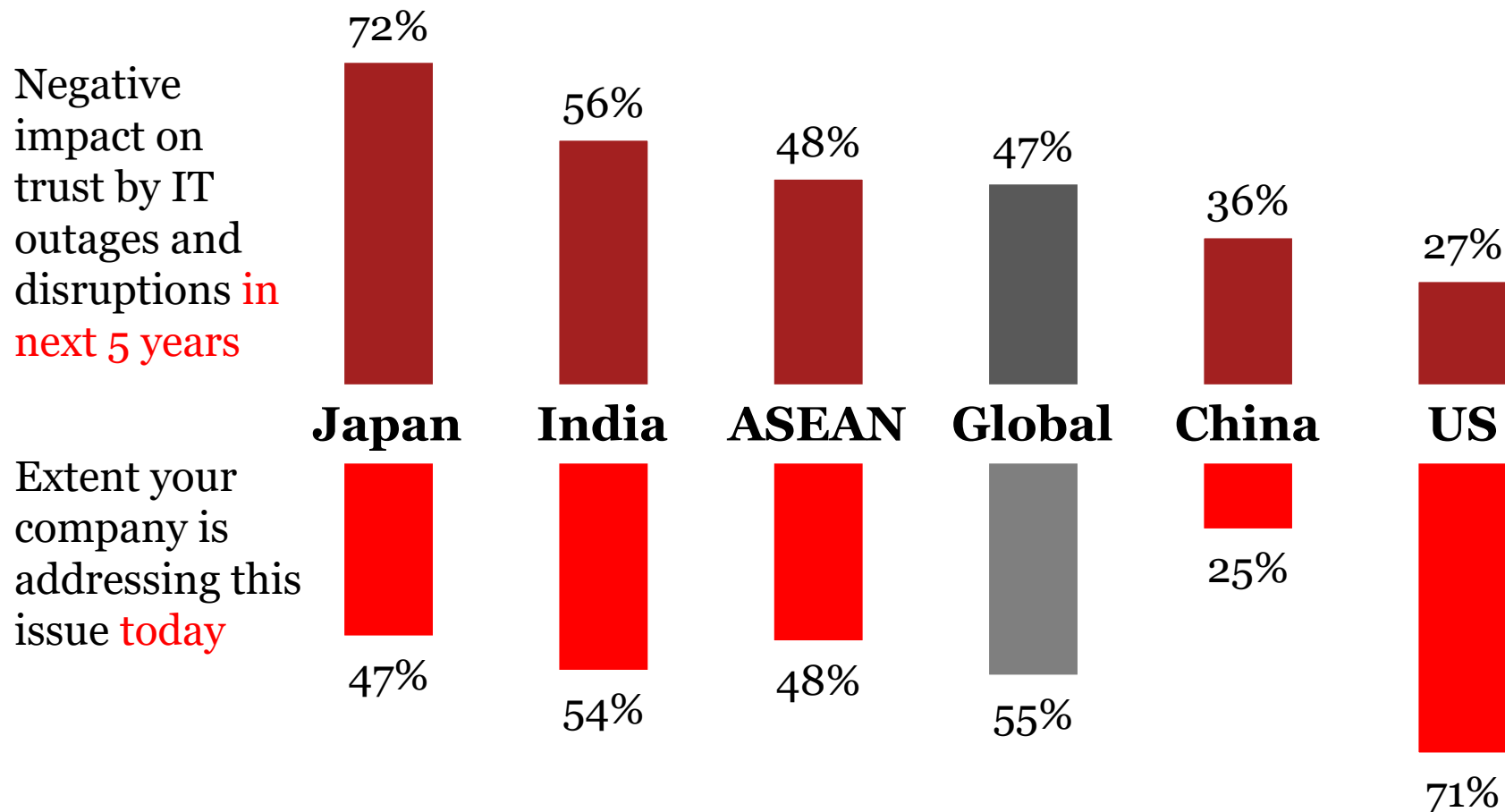
*Of Japanese CEOs
said that they have
strong digital skills
compared to*

55% of Global CEOs



Digital risks and trust in business

There is a striking contrast between Japanese and US CEOs on the approach to some of the risks around digital, governance, and risk management.



47%

*of Japanese CEOs are addressing this issue today while
71% of US CEOs are already addressing it.*



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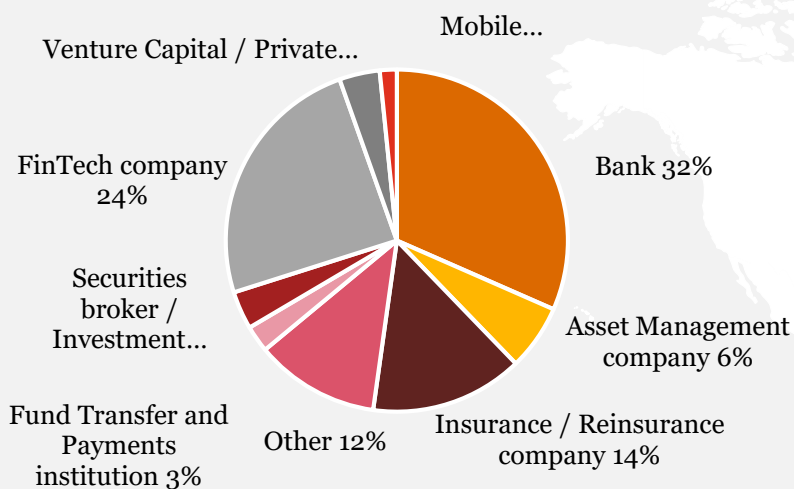
PwC Global FinTech Survey 2017

Global FinTech Survey 2017

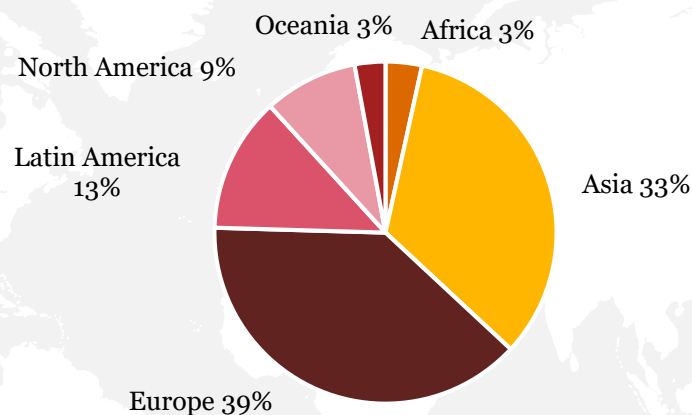
Respondents profile

More than **1,300** respondents, from **71** different countries around the world

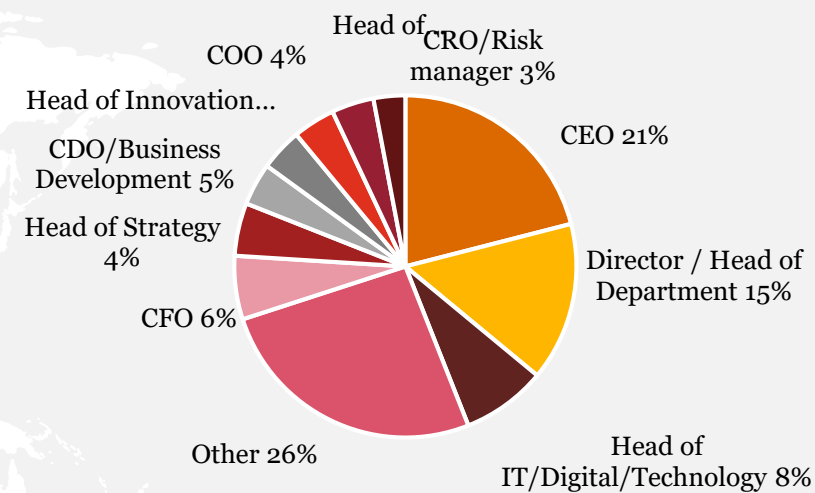
Type of companies



Origin of respondents

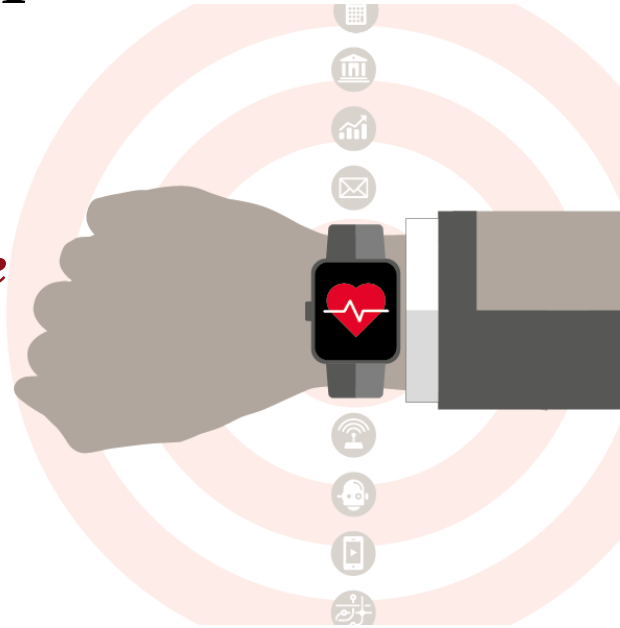


Type of respondents



FinTech is a driver of disruption in the market.

88% of incumbents are increasingly concerned they are losing revenue to innovators



Financial Institutions are learning to partner and integrate

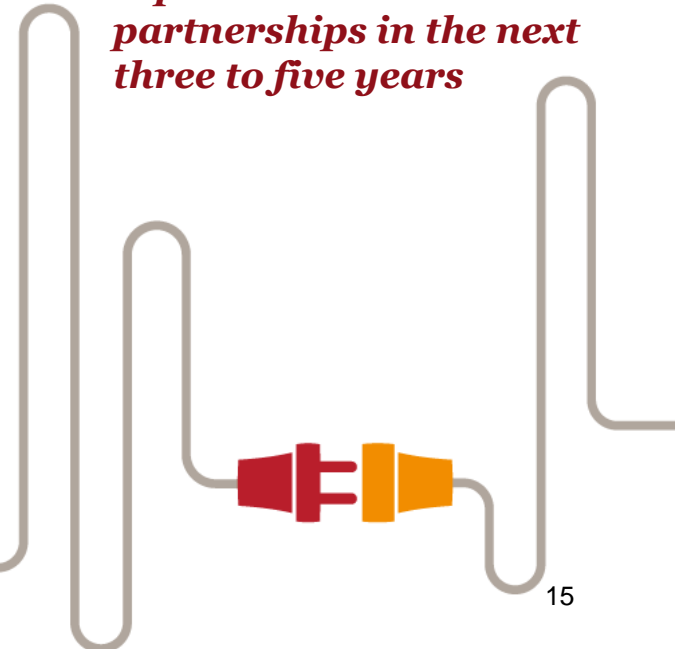
82%

expect to increase FinTech partnerships in the next three to five years

Financial Institutions are embracing the disruptive nature of FinTech

56%

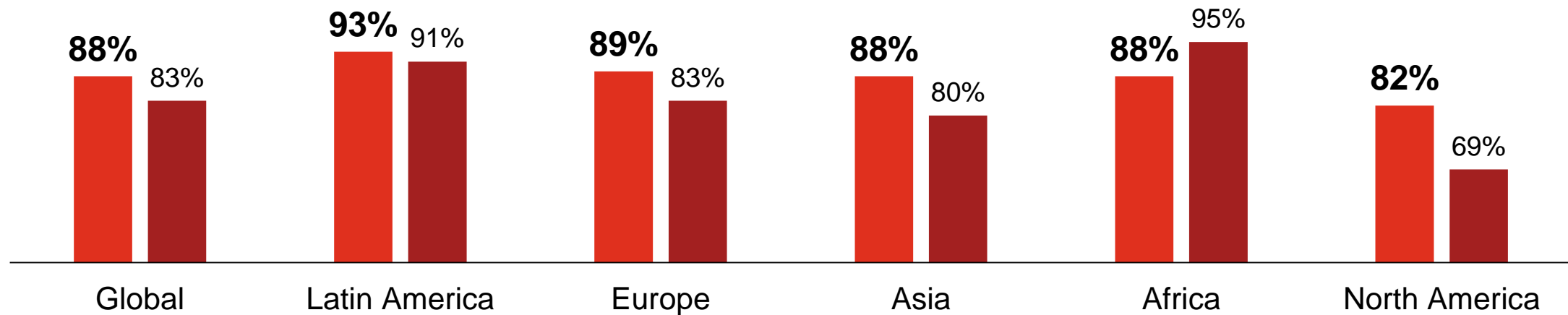
have put disruption at the heart of their strategy



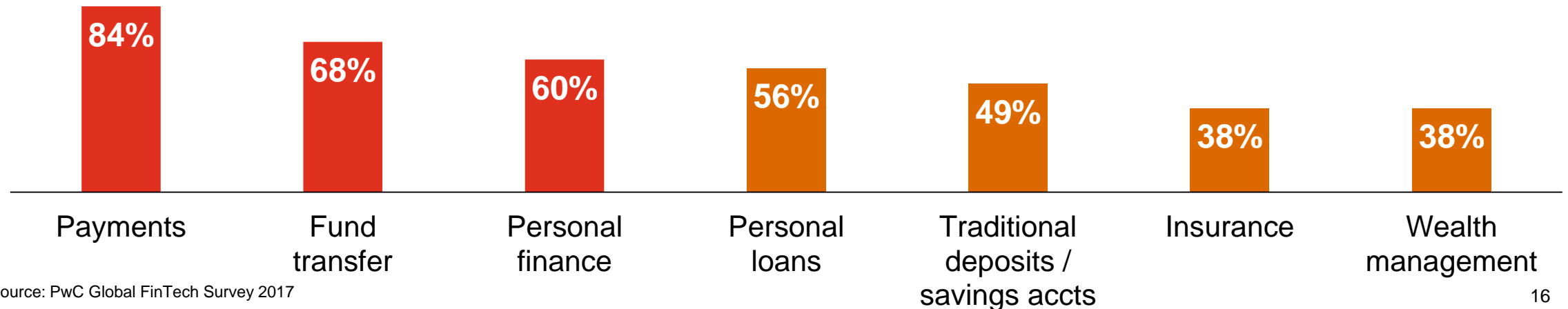
More than 80% of respondents believe their business is at risk

Q: Do you believe that part of your business is at risk of being lost to standalone FinTech companies within next 5 years?

■ 2017 survey ■ 2016

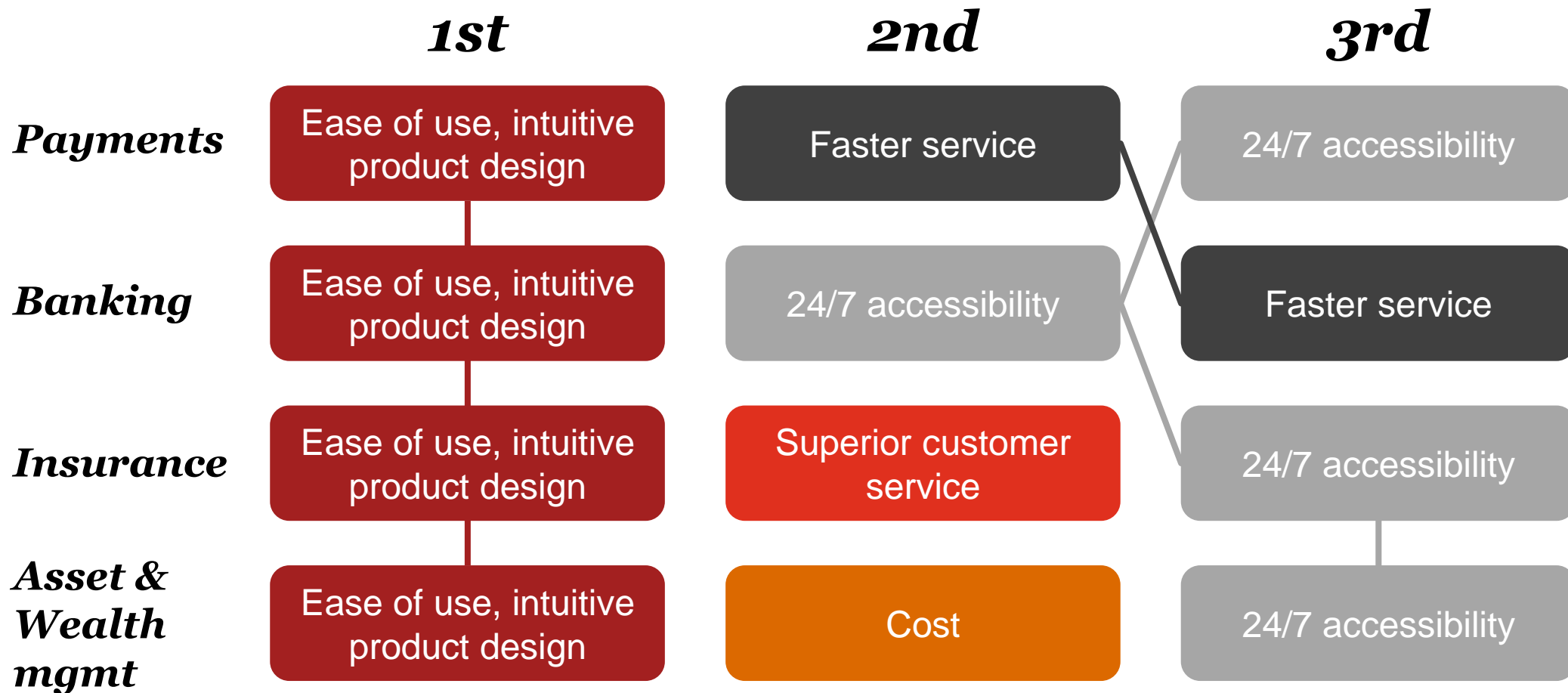


Q: What financial activities do you believe your customers already conduct with FinTech companies?



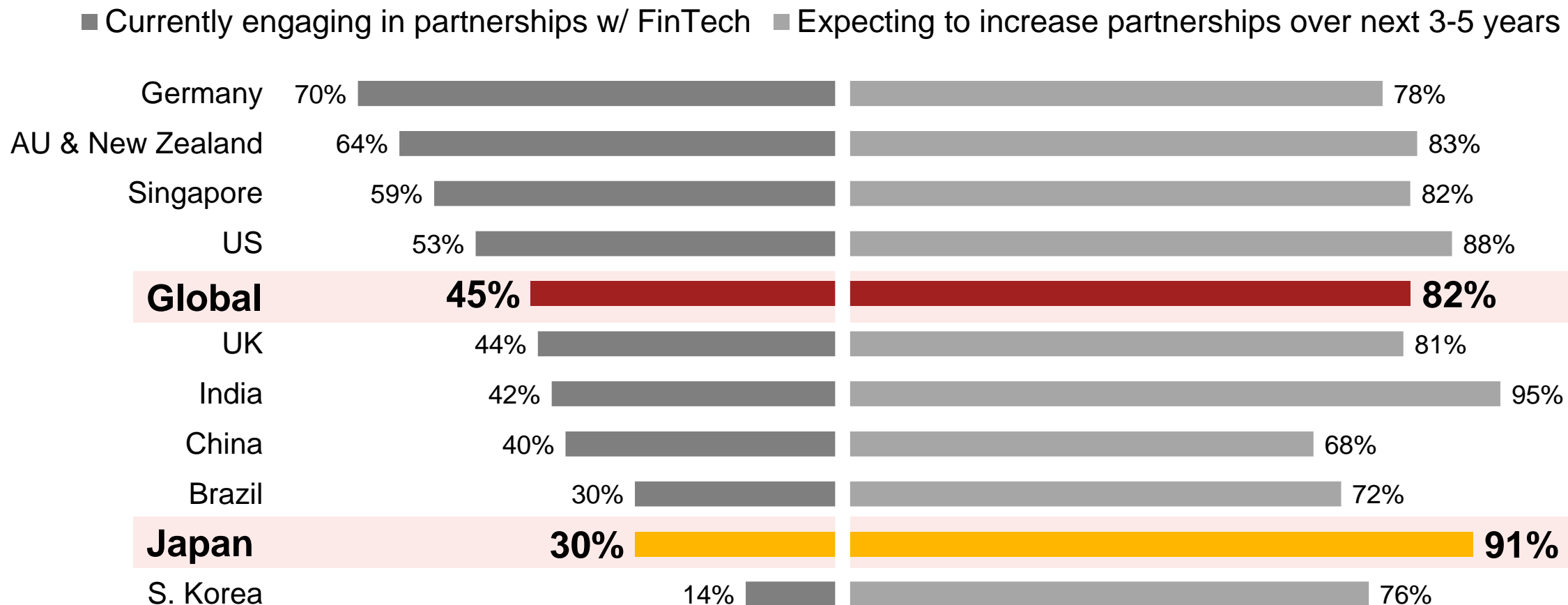
Financial institutions are addressing customer retention in the face of the disruptive nature of FinTech

Q: What do you think are the most important areas to address customer retention in the context of new FinTech competition?



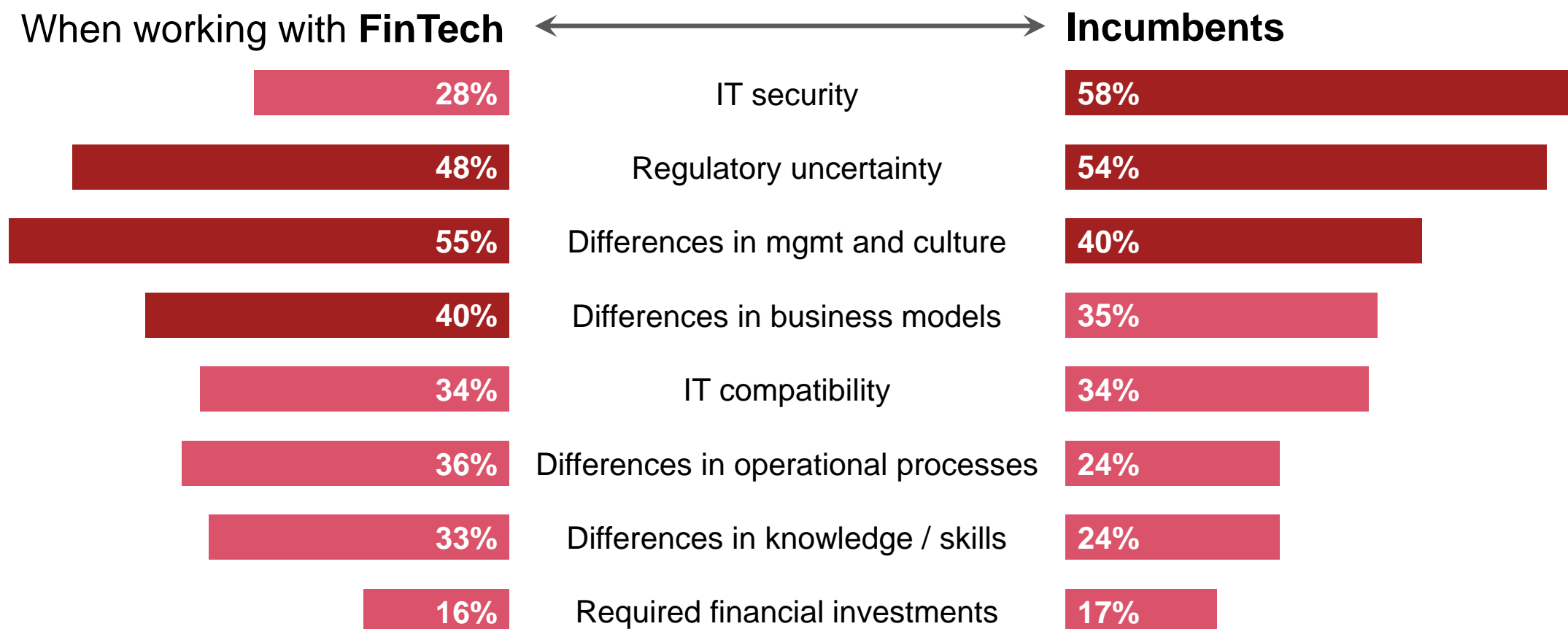
Financial Institutions are learning to partner...

82% of companies expect to increase partnerships w/ FinTech in next 3-5 years



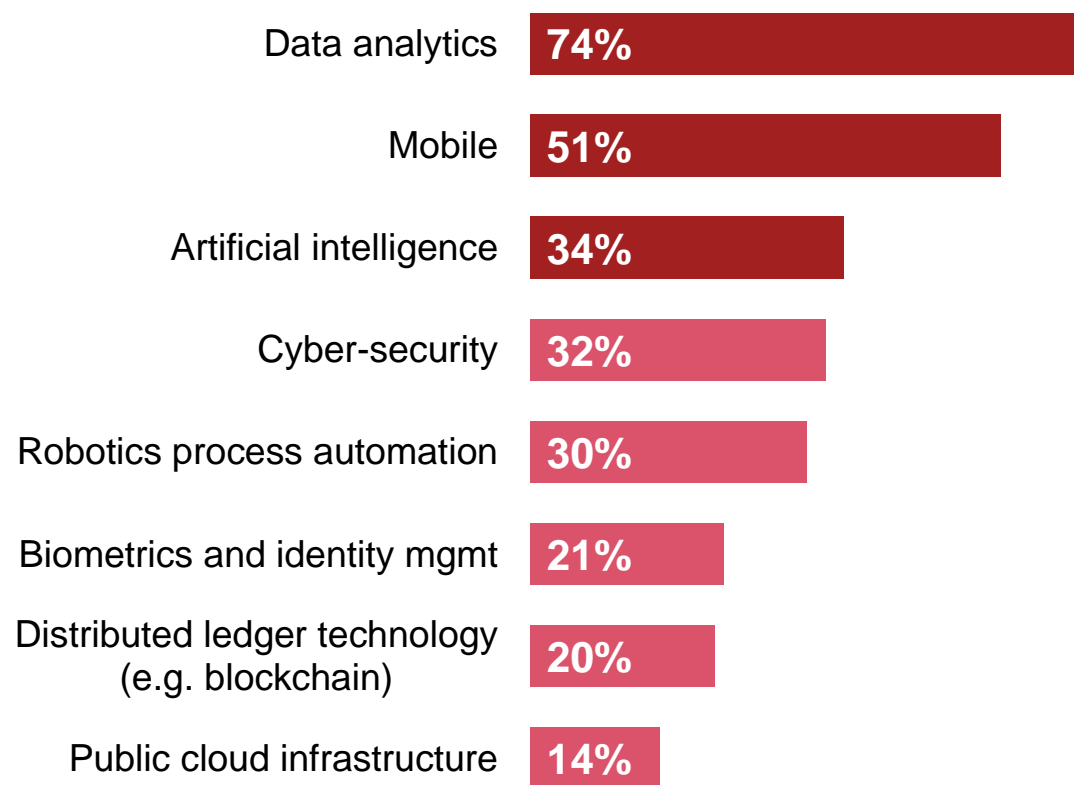
And integrate... but facing challenges around security, regulatory uncertainty, differences in management, culture, business models

Q: When working with Financial Institutions (or FinTech companies), what challenges do you face?

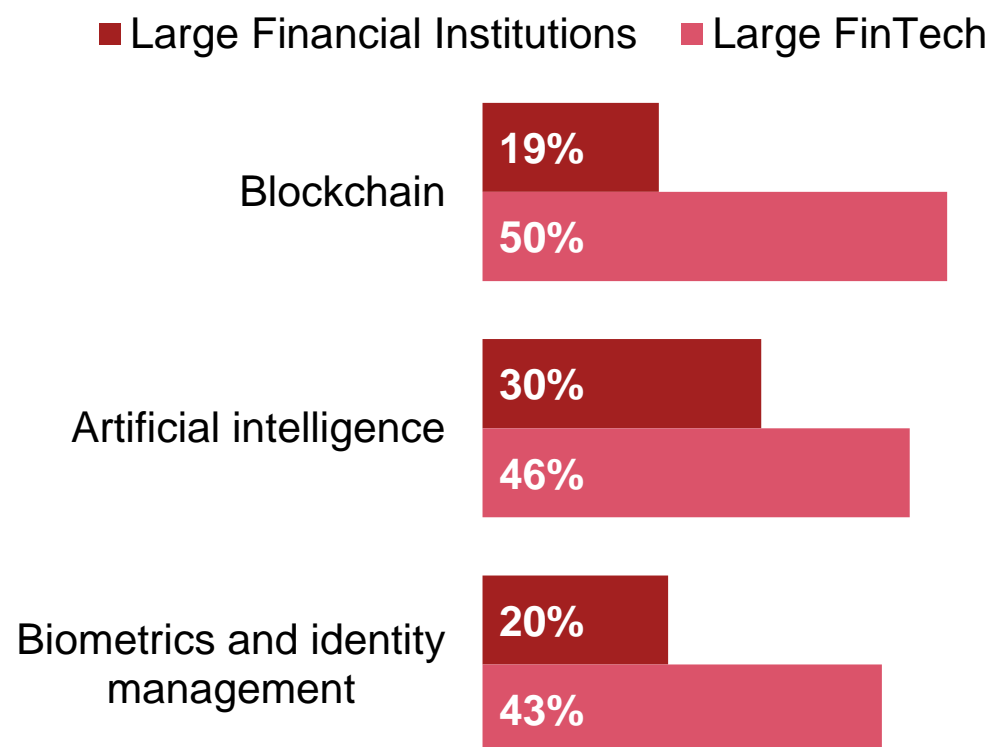


Investment in enabling technologies will help narrow the gap

Q: What are the most relevant technologies for your business that you plan to invest in within the next 12 months?

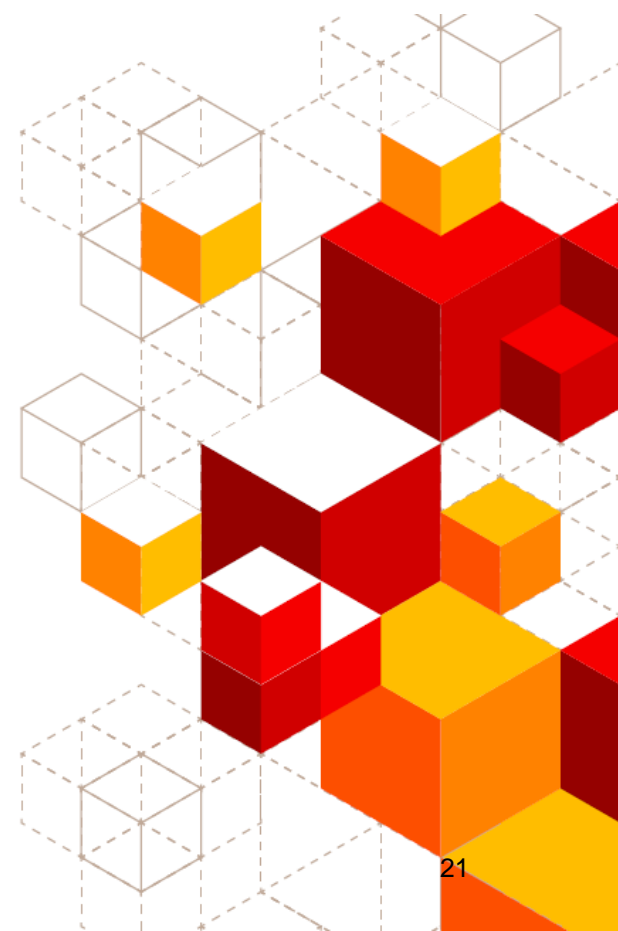
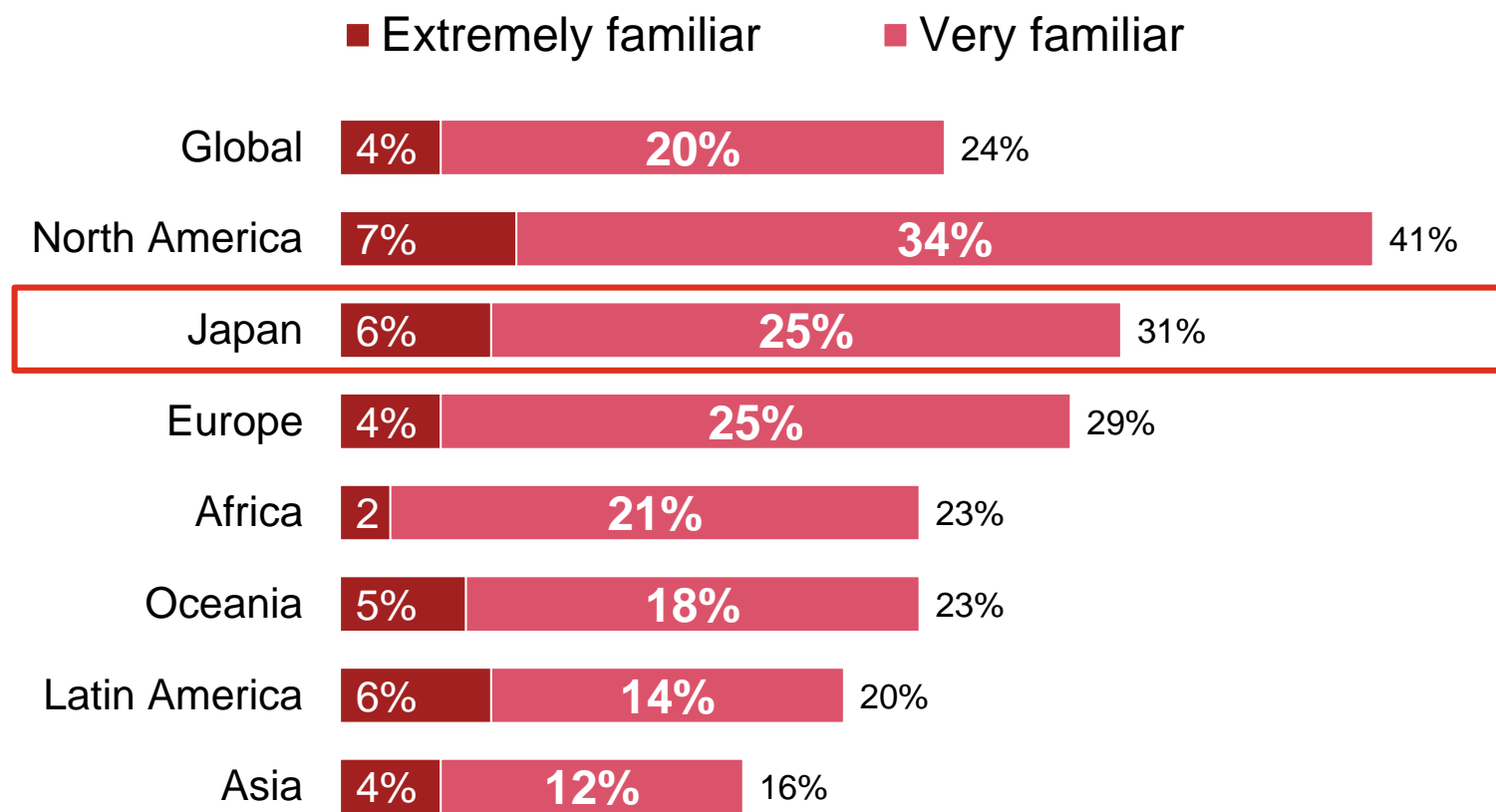


% of large Financial Institutions that identified these emerging technologies as the most relevant to invest in within the next 12 months (vs. Large FinTech companies)



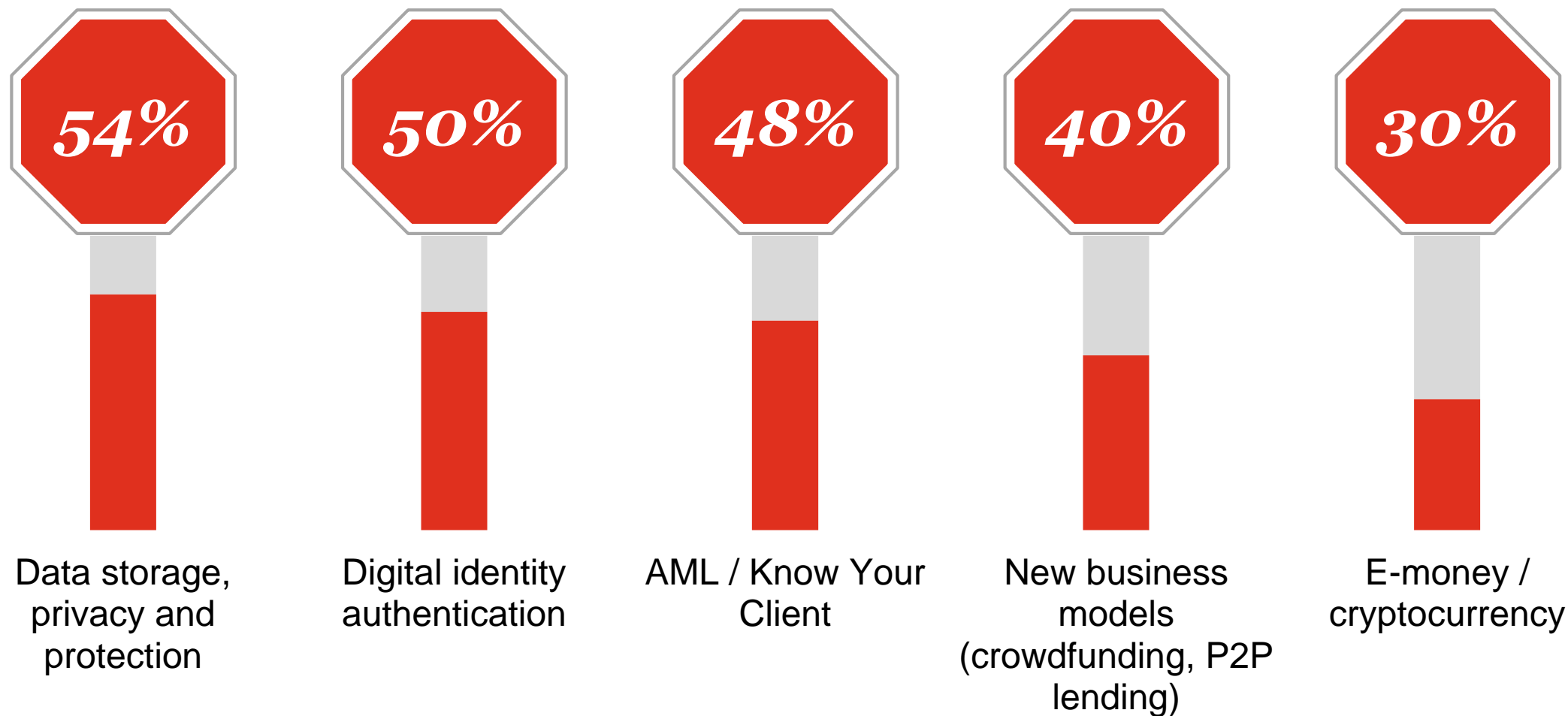
Blockchain is moving out of the lab

Q: Please describe the extent to which you are familiar with blockchain technology



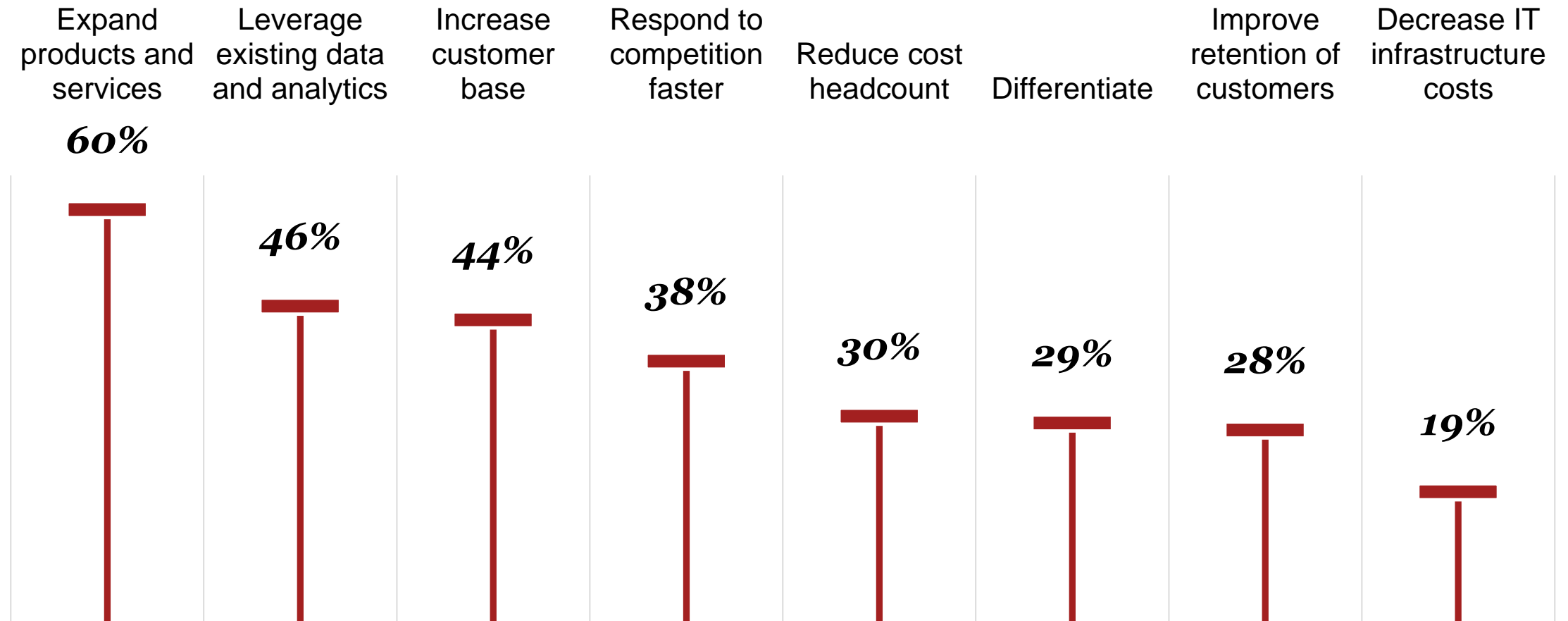
Regulations trigger both disruption and innovation

Q: In which areas do you see regulatory barriers to innovation in FinTech?



Managing expectations will be key...

Q: In your opinion, what are the opportunities related to the rise of FinTech within your industry?



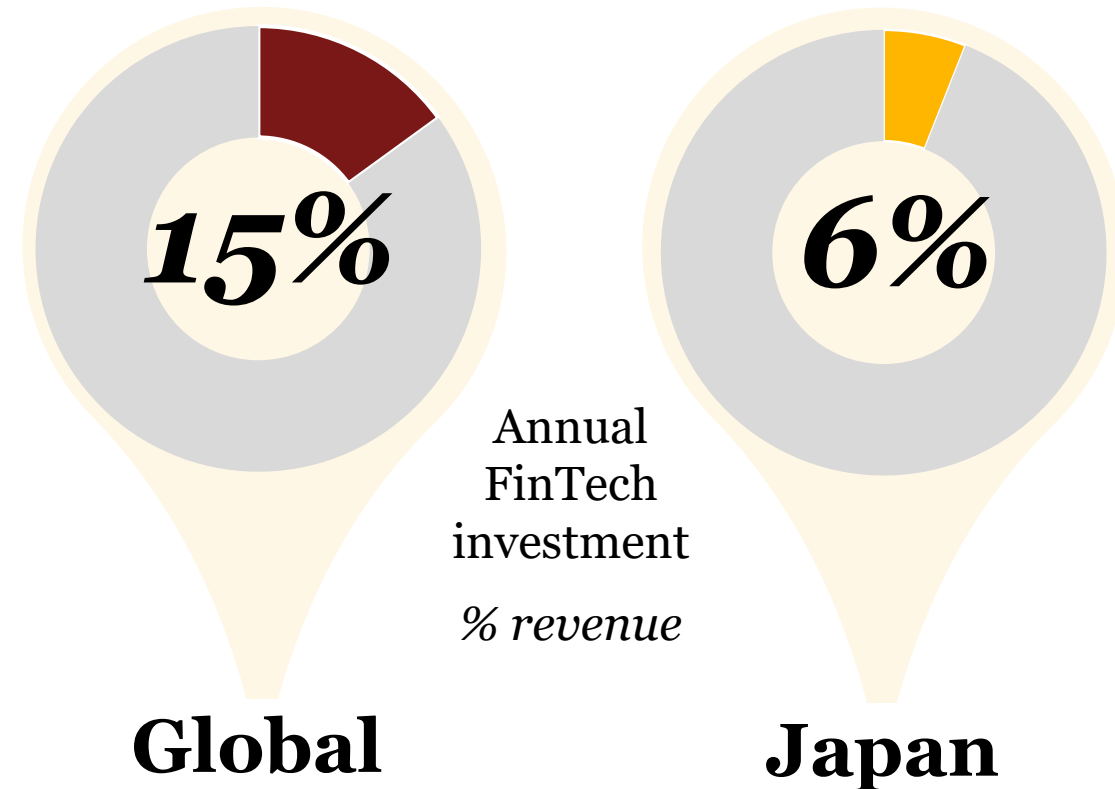
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PwC FinTech Survey 2017 ~Japan results

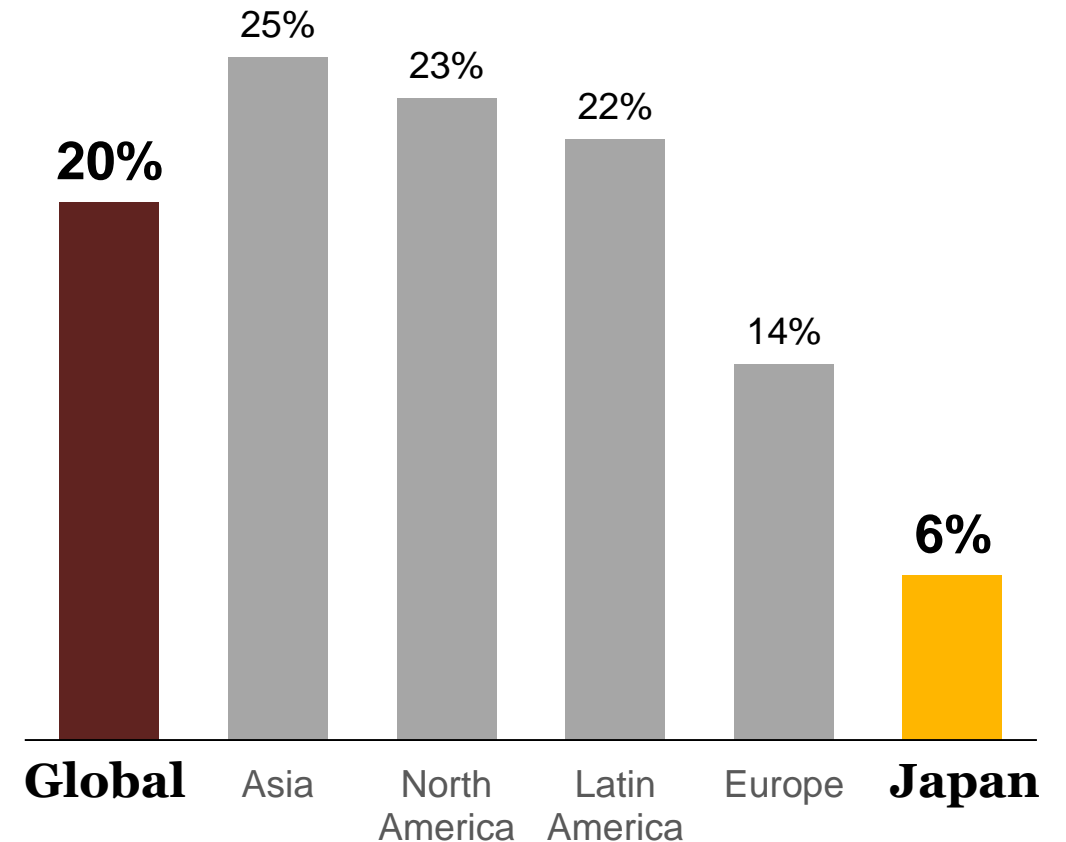
FinTech moving at a slower pace for Japan's Financial Institutions

The only way to get returns is to invest to learn.

Q: What percentage of your annual revenue do you allocate to FinTech matters (investments into FinTech, IT projects, dedicated resources)?

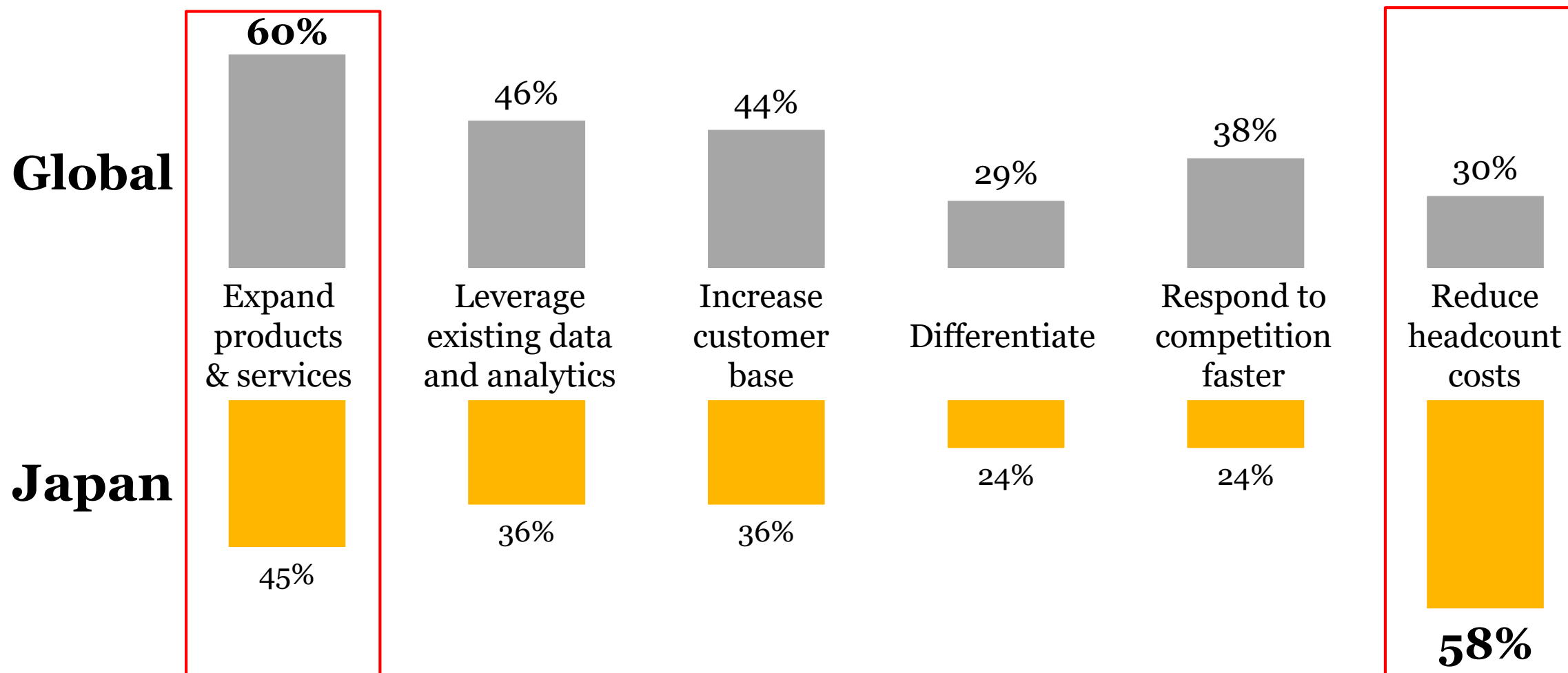


Q: What is your expected annual Return on Investment (ROI) on your projects related to FinTech?



Different expectations on potential impacts of FinTech

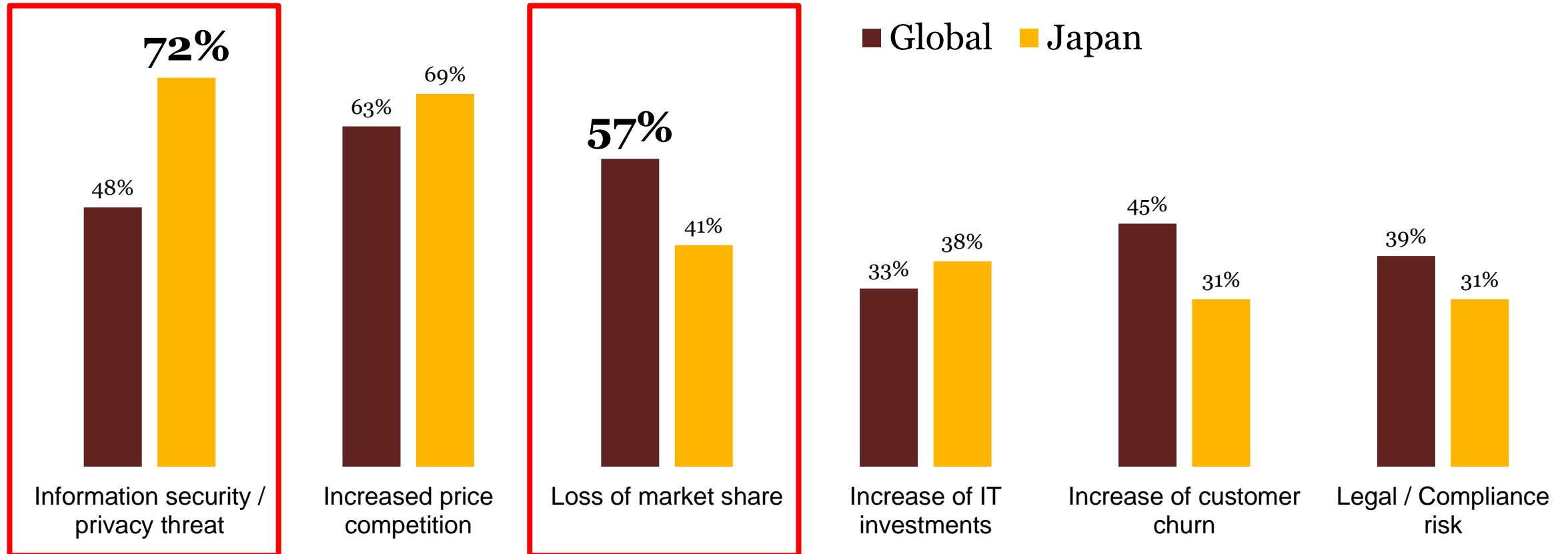
Q: In your opinion, what are the opportunities related to the rise of FinTech within your industry?



Threats imposed by FinTech

Information security is a larger concern for Japanese financial institutions compared to their counterparts who worried more about market competitiveness.

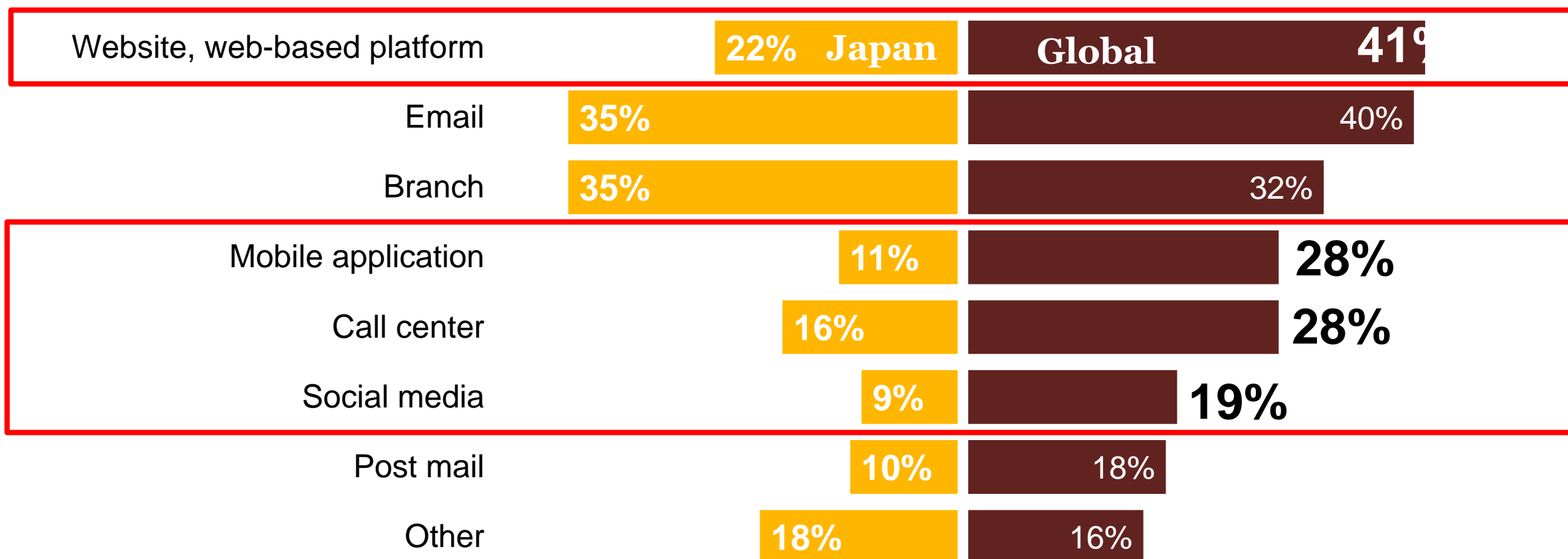
Q: In your opinion, what are the threats related to the rise of FinTech within your industry?



Renewed digital customer experience driven by customer centricity

Japanese financial institutions are slower in adopting digital channels to interact with customers

Q: What percentage of your clients do you interact with through the following channels?



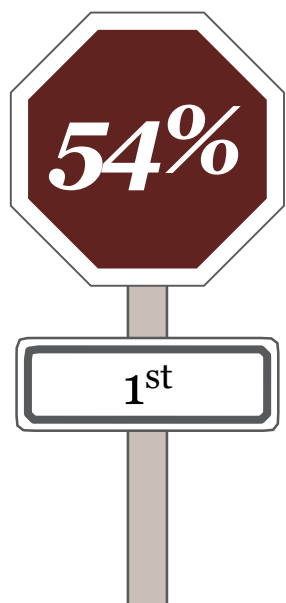
Regulatory barriers to innovation

Complexities of managing privacy, digital identity, and detailed customer data can be expensive hurdles

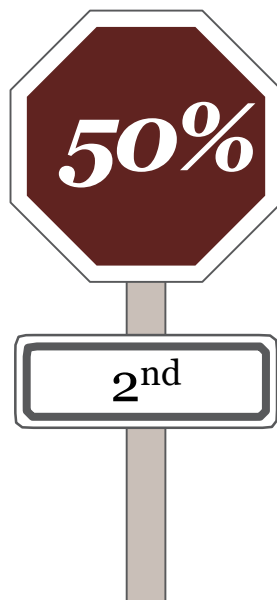
Q: In which areas do you see regulatory barriers to innovation in FinTech?

Global

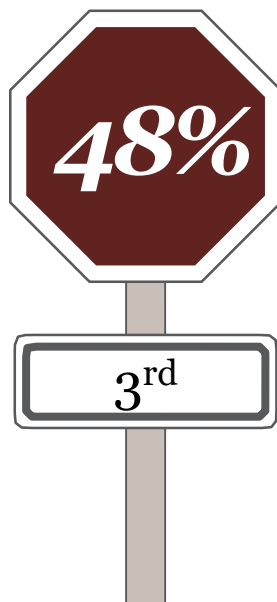
Data storage, privacy
and protection



Digital identity
authentication

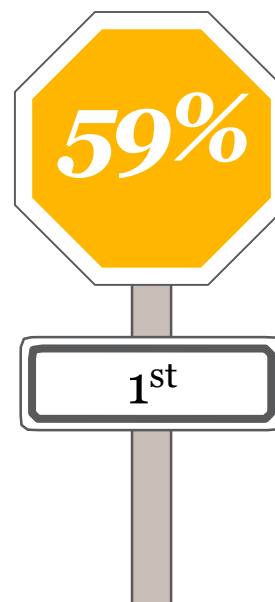


AML/KYC

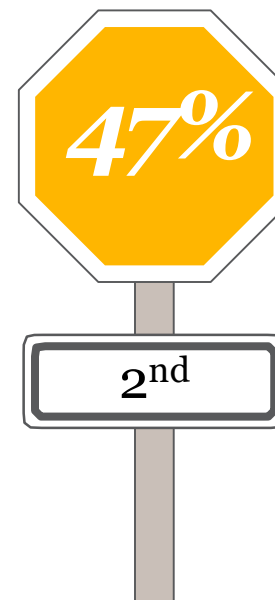


Japan

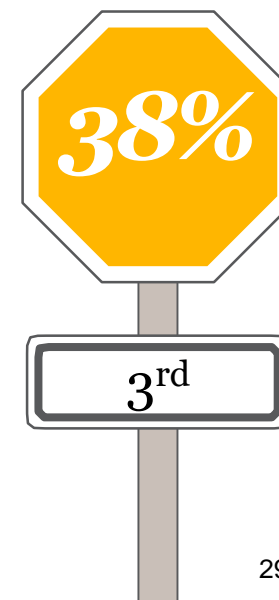
Data storage, privacy
and protection



E-money /
Cryptocurrency



New business
model





4

Discussion points

Tough questions to ask for business leaders

1. What parts of your business model will benefit from further automation?
2. Is your HR function ready to adapt to managing man and machine? What's missing from its capabilities and how will you fix it fast?
3. How are you going to find the rarer skills like leadership, creativity and adaptability required for your company to innovate and build brand differentiation?
4. Have you considered how artificial intelligence and automation will help you create competitive advantage in your key markets?
5. Have you redesigned your business processes so that your employees are best placed to work seamlessly with automation to create new value?

Thank you

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