Financial Services Survey
July 2017
This Financial Services Survey is the third in the series of bi-annual surveys being undertaken by PwC in collaboration with FinanceMalta. The results of this survey are based on the fieldwork carried out during May 2017.

The general sentiment indicator for the financial services industry as a whole has continued to drop since the first survey was published in June 2016, decreasing from a net positive balance of 18%, to 9% as reported in January 2017, and now turning negative as a net balance of 20% of respondents indicated that they are less optimistic about the market outlook.

Despite this negative view of the sector, when asked to comment on their own organisations, a net balance of 40% of respondents noted an increase in the volume of business in the past six months and expect this performance to be maintained for the coming six-month period.

Clearly, the economic activity being reported by business organisations is not necessarily aligned to their views of the industry in which they operate. One may posit that there are other external factors impacting this general industry sentiment indicator.

Furthermore while respondents have indicated that business volumes are increasing, a net balance of 60% of firms reported increased operating costs over the past six months. One notes that only a net balance of 20% of respondents have reported increased profitability in the past six months and the outlook is relatively flat going-forward.

Taking a closer look at each sector, confidence in the banking sector has remained positive throughout, as a net balance of 88% of respondents have experienced increased levels of business in the past six months with a net balance of 63% reporting increased profitability. Moreover, the sector outlook looks promising as a balance of 63% of respondents expect further increases in economic activity. Interest income and non-interest income alike are expected to increase in the near future, especially from commercial customers. Over the next six months, a net balance of 25% of respondents are forecasting increased profitability. This outlook is less bullish than that reported in the last survey in January 2017 probably driven by the 75% net balance reporting increased operating costs.

Contrary to banking, sentiment in the insurance sector has lost ground, with a net balance of 29% of respondents being less optimistic about business prospects. In spite of the overall outlook, a balance of 43% of respondents reported increased activity in the past six months, but only 14% expect business volumes to increase going forward, compared with 36% in the previous survey in January 2017. Meanwhile, trade from commercial business and private individuals is likely to remain flat in the coming six months. Going forward, premium income is expected to increase while
All numbers provided are balances unless otherwise stated, i.e. the difference between the percentage of respondents reporting an increase and those reporting a decrease.

A net balance of 50% of asset management are less optimistic about the future. The volume of business over the past six months has remained unchanged, with the outlook picking up slightly. Furthermore, a net balance of 20% have indicated that incomes have declined, with further declines expected in the next six months. As costs continue to rise across the whole market, earnings are down.

The survey also gauges participants about Malta’s overall competitiveness as a financial centre. Overall, a net balance of 28% of respondents reported decreasing competitiveness in the last six months.

Some of the main issues highlighted by respondents include the issue of proportionality, whereby respondents feel that a regulatory ‘one-size-fits-all’ approach does not apply for a small state like Malta. Moreover, regulatory imposed costs are continuing to increase, coupled with the increasing pressures of finding qualified staff of a certain calibre at sustainable market salaries.

The survey also gauges participants about Malta’s overall competitiveness as a financial centre. Overall, a net balance of 28% of respondents reported decreasing competitiveness in the last six months.

Some of the main issues highlighted by respondents include the issue of proportionality, whereby respondents feel that a regulatory ‘one-size-fits-all’ approach does not apply for a small state like Malta. Moreover, regulatory imposed costs are continuing to increase, coupled with the increasing pressures of finding qualified staff of a certain calibre at sustainable market salaries.
Banking
The sector continues to register business volume growth and increased profitability
Business sentiment and overall activity

Optimism remains relatively high within the banking sector as 25% of all respondents are more optimistic about the overall business situation when compared to the past six months. (Figure 1).

Over the same period, a net balance of 88% of firms reported increased volumes of business. For the next six months, the outlook for the banking sector looks equally promising, as 63% of respondents believe that their own business volumes are likely to increase in the coming months (Figure 2).

Growth has also been registered in net interest income, with a net balance of 38% of banking respondents reporting an increase from this revenue stream over the past six months. The outlook for the next six months is also positive, with a balance of 25% of respondents expecting interest income growth. Non-interest income was another positive highlight for the banking sector, with 75% of respondents seeing an increase in non-interest income in the past six months, and 50% of respondents envisioning an increase in the coming six months.
In terms of the volume of business banking, a contrast exists between business generated from commercial banking and private individual banking. A balance of 75% of banking sector firms have witnessed growth in commercial banking activities, and expect a similar continued performance for the next six months. On the other hand, a balance of only 25% of respondents have reported an increase.

The outlook for average spreads appears to be evenly split, while growth is expected in respect to average commissions, bank fees and premiums charged in private sector banking, with half the respondents expecting the same levels of business to continue.

**Costs, non-performing loans and profitability**

Banking organisations are also acutely aware of their costs as 75% of respondents reported increased operating costs over the past six months, with a similar outlook for the next six months.

With regards to non-performing loans, most respondents indicated no change in the value over the past six months, with a similar outlook expected in the six months ahead.

In contrast to the industry as a whole, profitability in the banking sector appears to be on the rise, with a balance of 63% of respondents indicating improved profitability over the past six months. Going forward, the outlook is more contained, with a balance of 25% expecting increased profitability in the coming six months, compared with 55% in the previous round (Figure 3).

**Employment and capital expenditure**

In line with the overall banking outlook, employment is expected to grow steadily with 63% of respondents indicating increased employment over the past six months, compared with 9% in the previous survey. A similar pattern is envisaged for employment in the coming six months.

Training expenditure was naturally a priority for most banks in the past six months, with 38% of respondents having indicated an increase in training. With increased expectation for employment in the coming period, 63% of banks expect training expenditure to increase in the coming six months.
Marketing and its related expenditure are gaining in importance. A balance of 25% of respondents indicated that Marketing expenditure in the coming twelve months will increase. Similarly, digital marketing initiatives are also expected to increase with 38% of respondents claiming so.

IT and IT related investment is also a key factor, with 75% of banks expecting to authorise more capital expenditure on IT services in the coming year. The principal reasons for capital expenditure are to increase efficiency (28%), provide new services (24%) and expand capacity (20%).

Legislation comes out as one of the top limiting factor to increased levels of business with 29% indicating that this is the case. 24% of banking respondents indicated that the ability to find professional staff was also a critical limiting factor.

All respondents have indicated that they expect to spend more on regulatory compliance in the next year when compared to the past twelve months, highlighting the regulatory burden and regulatory changes being experienced by the sector.

On a positive note, a net balance of 25% of respondents indicated that the efficiency and effectiveness of Malta’s regulatory framework and supporting services in the past six months has benefited their business activities more favourably.

Over the next twelve months, 75% of respondents signalled that their growth strategy will be focused on acquiring new customers. The three most popular enablers of growth were IT systems, Customer Relationship Management capabilities and branding and advertising.
Each bank needs to develop a clear strategy to deal with this transforming landscape. They need to decide whether to lead, to follow fast, or to manage defensively, putting off change. They need to create agility and optionality, in order to adapt to rapid change and future uncertainty. Yet, whatever the chosen strategy, success will come from successfully executing the right balance across the following six priorities.

### Banking priorities for 2020*

1. **Develop a customer-centric business model**
   Banks provide their customers complex product sets. Those who hope to succeed by 2020 need to develop a more complete understanding of their customers and dramatically simplify their product set. This will allow for an improved customer experience with lower operational risk. The priority will be to begin with understanding customer needs, not with products or pricing.

2. **Optimise distribution**
   Historically, the banks with the best branch footprint have dominated the market. By 2020, branch banking will diminish significantly, as customers migrate to digital channels. Leaders will offer an anytime, anywhere service, creating an integrated service offering.
3. **Simplify the business and operating model**
Banks have developed staggeringly complex and costly business and operating models. Now they must simplify. Rising customer expectations, increasingly active regulators and stagnant shareholder returns demand it. Banks need to start with the customer and work backwards to simplify the product, organisation and channel. Getting this right can deliver an improved customer experience, lower costs and reduce levels of operational risk.

4. **Obtain an information advantage**
Banks and their customers generate exceptionally large masses of information. The leading players will be those that manage to integrate, analyse and act upon the insights gained from such data. The largest players are thought to be best geared in this regard, with third party providers expected to emerge to help other players.

5. **Enable innovation**
Innovation is the single most important factor driving sustainable top and bottom-line growth in banking. However, banks today are not known as places where innovation thrives, nor are they the favoured destination for top software engineers and other innovators. Banks need to organise and manage differently – protecting and enabling talent, becoming agile in their development processes and being open to partnerships with outside institutions. Developed market executives will need to take more of an innovative mindset.

6. **Proactively manage risk, regulations and capital**
The flood of regulations following the financial crisis signals a major mindset change for regulators. Today, regulation is not just another consideration to be made; rules are more complex while regulators are more suspicious and less flexible in their demands to improve reporting and compliance. Leading banks are taking a different and more comprehensive approach to managing their regulatory obligations. This approach is pragmatic, proactive and increasingly integrated into business as usual.

*This publication can be accessed at:*
**Insurance**

Despite business volume growth and increased profitability, insurance firms are less optimistic looking forward.
For the first time since the start of this survey, optimism has turned negative in the insurance sector. A net balance of 29% of insurance sector respondents reported depressed levels of optimism (Figure 4) for the business sector over the past six months, below the average for the financial industry as a whole.

In spite of the overall outlook, over the past six months, a balance of 43% of firms reported increased volumes of business; however, this balance is envisaged to drop to 14% over the next half a year, compared with a reported outlook of 36% in the previous survey (Figure 5). More can be said of premium income, for which 71% of respondents claimed has increased in the past six months. Moreover, 57% expect it to grow in the coming six month period in line with previous surveys.

Investment income has remained flat over the past six months, compared to a negative balance reported in previous survey. The outcome for this income stream is split evenly for the coming six months, with the majority of respondents planning for investment income to remain at constant levels. One notes that the increased volume of business is being driven by both the commercial market and the private-individuals market.
Regarding **average commissions, insurance fees and premiums** charged over the past six months, a net balance of 43% of respondents registered increased growth, compared to 27% in the previous survey. The outlook is also positive as 29% of respondents are anticipating an increase in commission and fee income in the months to come.

Following prior year trends, **total operating costs** increased over the past six months as reflected by 71% of respondents. A balance of 86% of the insurance sector are also foreseeing these costs to continue increasing in the following six months. Despite such an increase in costs, a robust business sector has allowed players in the insurance sector to benefit from increased profitability. In fact, a net balance of 43% of respondents report increased **profitability** in the past six months. Going forward, this trend may not be likely to continue as respondents’ outlook for the next six months appears to be neutral. This compares to an outlook of -36% in the previous survey (Figure 6).

A net balance of 29% of respondents have reported increases in the total **amount of insurance claims** in the past year, with 59% indicating that this increase is likely to be maintained in the coming year. At the same time, a net balance of 29% of respondents have reported an increase in the average cost per claim over the past year. With regards to the loss ratio, the majority expect it to improve or remain constant over the coming twelve months.

**Employment and training**

A balance of 29% of insurance firms reported an increase in the **number of persons employed** in the past six months. The outlook appears positive as 57% indicated that the number of employees are to increase in the next six months, in line with the anticipated volume of business.

**Training** has followed a similar trend as 29% of respondents indicated an increase in this expense in the past six months, with 43% claim that this is likely to keep on increasing in the six months ahead. As a result of these trends, it is only natural that an overall balance of 71% of insurance firms reported an increase in **staff costs as a proportion of total costs** in the past six months, with 86% of these estimating staff costs to keep on increasing in the months ahead.

**Staff turnover** appears to be an issue in the sector as 71% of participants indicated that in the past six months this has increased. A net balance of 57% expect staff turnover to increase going forward.
Capital and marketing expenditure

Unlike banking, respondents from insurance firms will have a neutral approach to their overall marketing expenditure, but 57% of participants will be increasing their digital marketing initiatives.

A net balance of 86% of respondents plan to authorise increased capital expenditure on Information Technology, highlighting the importance of investment in this sector.

When asked about factor that can limit business activity, respondents identified the following: competitive landscape (26%), the availability of skilled staff (21%) and staff turnover (21%).

The amount spent on regulatory compliance has continued on its upward trend. Up from 64% in the last survey, 71% of respondents expect to spend more on meeting the growing demands of regulations.

Business prospects and growth

All respondents are expecting the main competition to emanate from their own sector of financial services.

With respect to the level of efficiency and effectiveness of Malta’s regulatory framework, 43% of respondents have claimed that this negatively influenced their business activity, compared to 18% in the previous survey and 33% in the first survey. The remaining 57% have claimed that the efficiency of the local regulatory framework has affected their business in the same way in the past six months.

Insurance firms are aiming to be more customer focused in the coming year, as most respondents will be sourcing their growth from the retention of existing customers (57%) or the acquisition of new customers (29%). The focus here appears to be placed on customer retention and improving the quality of service for this customer pool, rather than seeking to acquire new customers. Interestingly, no respondents noted mergers/acquisitions or international markets as part of their growth strategy, possibly highlighting the inward focus insurance companies are adopting.

When considering the actuarial function a divided response was noted, with equal respondents claiming that this segment of their business model is/isn’t sufficiently embedded into their operations for a streamlined and efficient delivery of actuary services.

Overall, general comments from the sector highlight a need for proportionality and a level playing field. A different approach is required for companies of different sizes. The hunt for skilled staff and the regulatory burden are making the insurance business cumbersome amid a competitive landscape.
Insurers are going beyond disruption

InsurTech is reshaping the insurance industry. Previously viewed as a disruptive force, it is now driving innovation across the sector and seen as a transformative force. Although many within the insurance sector see their business as being at risk, InsurTech is becoming more widely understood. As a result, insurers are taking a more proactive approach to seize the opportunities offered by InsurTech, with many putting disruption at the heart of their strategy. Additionally, insurers are the most active when monitoring FinTech and are increasingly partnering up with innovators to meet changing customer needs and target new segments.

Prioritising customer engagement

The focus of insurance players has shifted to become more customer centric as new tools are being developed to help companies align themselves to customer needs. Prioritising customer engagement will ensure products are intuitive, easy to use and accessible.
Analytics and emerging tech
Consistent with the trends highlighted for the industry, insurers plan to heavily invest in data analytics and mobile technologies to ensure better risk insights and customer engagement models. Alongside this they are beginning to look at emerging technologies such as AI and robotics process automation (RPA) for short term investment.

Primed for blockchain adoption
Blockchain is increasingly attracting the attention of participants. Insurers are realising the competitive advantage that this technology could bring to the design of new products and services with increased transparency, security and efficiency. Going forward, a widespread adoption of blockchain technology as part of an in-production system or process is anticipated in the insurance industry.

Global challenges
- Talent is a key issue for insurers, with many in the industry having trouble in hiring and retaining people with the right skillset to innovate. Insurers can attract talent by acquiring from startups, partnering with innovators, and fostering internal talent. However, most companies will need an updated staffing model in order to develop their talent accordingly.
- IT security is also a pressing concern when taking into consideration the increase of consumer and risk data. Acquiring or partnering with InsurTech companies can mean that traditional insurers’ legacy IT systems are introduced to new exposures and risks as they are integrated with new, often cloud-based platforms.

*This publication can be accessed at: https://www.pwc.com/gx/en/industries/financial-services/publications/insurances-new-normal-driving-innovation-with-insurtech.html
Asset Management
Revenue and profitability lose ground in the face of increasing costs, but firms anticipate a pick-up in business volumes going forward
Similar to the insurance sector, a net balance of 50% of asset management respondents reported decreased levels of optimism for their business sector over the past six months. This has deteriorated following the last survey where a net balance of 23% respondents reported diminished optimism (Figure 7).

Concerning business volumes, in the past six months there were as many respondents reporting increases as there were respondents reporting decreases. Going forward, only a net balance of 10% of respondents envisage business volumes to pick up in the coming six months. This outlook for the volume of business in asset management is back in positive territory following the previous survey where a balance of 8% of respondents were expecting decreased volumes of business (Figure 8). Although turning positive, it is far from the original outlook in the first survey where 60% of respondents expected business levels of increase.

Within this context, a net balance of 20% of respondents have indicated a decline in income over the past six months. The outlook for the next six months appears to be equally bleak, with a net balance of 30% expecting a decline in income.
Employment, training and employee turnover

The majority of respondents from asset management companies (70%) have stated that employment levels have remained constant in the past six months. Looking ahead, a similar scenario is likely to ensue as 80% of respondents reported that employment is likely to remain at similar levels.

Training expenditure is likely to follow a similar trend, as the vast majority report that such an expense remained at the same levels in the past period, and will continue to do so in the following six months. Staff turnover has also been stable and is likely to remain constant going forward.

A net balance of 50% of respondents have reported an increase in staff costs as a proportion of total costs over the past six months. 40% of participants are envisaging this to increase further over the next six months.

As indicated by 40% of respondents, total operating costs have continued with their upward trend, with more participants (50%) anticipating further increases in the coming six months.

Given such a landscape, it is natural that a balance of 30% of respondents report decreased overall profits in the past six months. This negative sentiment is likely to be maintained in the next six months of the year, as an equal number of asset management respondents are expecting further declines in profitability, down from -15% in the previous survey (Figure 9).

Employment, training and employee turnover

The majority of respondents from asset management companies (70%) have stated that employment levels have remained constant in the past six months. Looking ahead, a similar scenario is likely to ensue as 80% of respondents reported that employment is likely to remain at similar levels.

Training expenditure is likely to follow a similar trend, as the vast majority report that such an expense remained at the same levels in the past period, and will continue to do so in the following six months. Staff turnover has also been stable and is likely to remain constant going forward.

A net balance of 50% of respondents have reported an increase in staff costs as a proportion of total costs over the past six months. 40% of participants are envisaging this to increase further over the next six months.
Marketing and capital expenditure

Marketing expenditure is likely to remain constant as claimed by 70% of respondents. Digital marketing initiatives will similarly remain the same, as indicated by 40% of respondents. The remaining 60% did not use digital marketing as part of their advertising strategy.

Business prospects and growth

Considering business prospects for asset management firms, respondents claimed that the main limiting factors for capital expenditure going forward included the statutory and regulatory landscape (38%), the ability to raise funds (25%) and the shortage of labour (19%).

The regulatory setting is indeed a significant consideration for such firms as half expect to spend more on regulatory compliance in the next twelve months. Participants noted how regulators need to listen more to practitioners and consult them to help ease compliance.

The efficiency and effectiveness of Malta’s regulatory framework and supporting services represents another concern for the industry as a net balance of 30% of participants stated that this has negatively influenced their business activities in the past six months. Respondents noted how political and corruption risk needs to be reduced as more needs to be done to improve Malta’s reputation abroad.

Similar to other sectors within the financial services industry, growth across asset management companies will mainly come from new customers (60%), existing customers (20%) and new products/services (20%). Similar to insurance respondents, no asset managers cited mergers and acquisitions or international markets as part of their growth strategy.

Such growth will be enabled through targeted brand and advertising initiatives (23%), better CRM (23%), more robust IT systems and applications (23%), a stronger sales force and distribution channel (17%) and through performance measurement tools (13%).
Asset management moves centre stage

Historically, banks and insurers have dominated the financial landscape, allowing them to enjoy enviable asset flows, create sizeable asset management (AM) divisions, lobby with policy makers and have a voice in the political agenda. By 2020 their influence is expected to diminish as demographics and markets thrust the AM industry to centre stage. Increased regulation, the rising cost of capital and ageing populations will create an environment into which AM can step up and place itself at the centre of efforts to reinvigorate the world economy.

Transformed fee models

Most markets today operate with a model that embeds distribution and management fees in some shape or form and misaligns distributor objectives with those of the investor. This may be through embedded fee arrangements such as in Europe, or front-end fees as in Japan. By 2020, virtually all major territories with distribution networks will have introduced regulation to better align interests for the end-customer, and most will be through some form of prohibition on having the asset manager allocate to distributors as evidenced in the UK’s Retail Distribution Review (RDR) and MiFID II. This will increase the pressures of transparency on asset managers and will have a substantial impact on the cost structure of the industry.
Varied strategies and asset management
Traditional active management will continue to be the core of the industry as the rising tide of assets lifts all strategies and styles of management. Alternative and passive assets will grow considerably faster up to 2020 and are set to become more significant components of portfolios. These include hedge funds, private equity and real estate investments (alternative investments) and exchange-traded funds and other index tracking schemes (passive investments).

Technology
Asset management is a virtual business, but operates within a relatively low-tech infrastructure. By 2020, technology will have become mission critical to drive customer engagement, data mining for information on clients and potential clients, operational efficiency and regulatory and tax reporting. At the same time, cyber risk will have become one of the key risks for the industry, ranking alongside operational, market and performance risk.

*This publication can be accessed at: https://www.pwc.com/gx/en/asset-management/publications/pdfs/pwc-asset-management-2020-a-brave-new-world-final.pdf*
Malta’s competitiveness as a Financial Services Centre
Respondents were asked to gauge Malta’s competitiveness as a Financial Services Centre over the past six months reference period.

Gauging Malta’s competitiveness varies from the overall sentiment experienced within the financial services sector. Here respondents are gauging how Malta as a whole is faring compared to other global financial centres. As a result, it is possible to have a positive industry sentiment, yet a negative view of Malta’s competitiveness. In fact, such is the case in the banking industry. Despite a positive outlook and positive growth, a balance of 38% of banking respondents felt that Malta’s competitiveness had declined in the past six months. Conversely, in the insurance sector, despite having an overall negative industry sentiment, participants felt that Malta’s competitiveness had improved. Asset managers reported a decline in competitiveness as a balance of 60% noted that in the last six months the local financial services centre has become less competitive.

In fact, an industry wide index of a negative balance of 28% was reported, down further from -17% in the previous survey. It must be noted that each respondent carries the same weight, resulting in the asset management and banking sectors representing 40% and 32% respectively, and the insurance sector making up 28% of the total population of respondents.
In considering any macro-economic current developments that could impact the financial services sector, respondents flagged the following issues:

**Proportionality**
Policy makers need to address this issue, as a one-size-fits-all approach is not appropriate for the local context. Our small size and limited market often result in heavy regulation that can stifle trade. Moreover, a distinction needs to be made between SMEs and the larger market players to ensure an even playing field.

**Promotion**
Were the local authorities to promote Malta as a financial services centre, respondents suggested that countries such as the United Kingdom, Italy, France and the U.S should be targeted.

**Legislation**
A stringent regulatory framework was noted to be restricting the sector’s level of business.

**Staff**
Some participants noted that the lack of skilled staff was another limiting factor to increased growth.

**Reputation**
A number of respondents noted that more needs to be done to improve our reputation abroad and to control political risk and corruption risk so as not to damage Malta’s reputation as a financial services centre.
How ready is the banking sector for IFRS 9 and MIFID II?

IFRS 9 replaces IAS 39 dealing with the recognition and measurement of financial instruments, coming into effect as from 2018 and likely to affect various industries, especially financial institutions. IFRS 9 raises the risk that more assets will be measured at fair value, calls for earlier recognition of impairment losses and brings with it significant new disclosure requirements. Following the previous survey, respondents seem more prepared to face the impairment assessment challenges imposed by this standard, as a balance of 25% of respondents claim that they are highly ready for the new standard. Respondents estimate that the likely impact of the standards requirements on impairment provisions will range between 10% to 20%.

Similarly, the Markets in Financial Instruments Directive II (MIFID II) will affect most market players engaged in the dealing and processing of financial instruments. This directive aims to increase transparency, create a shift towards more structured marketplaces, improve execution and trading behavior and make costs more explicit. Although most respondents are fairly ready for its adoption, there were some respondents that noted a low readiness for the introduction of MIFID II on their business.

How ready is the insurance sector for IFRS 9, 17 and Solvency II?

While IFRS 9 deals with financial instruments, IFRS 17 considers insurance contracts, ensuring that entities provide all the relevant information that faithfully represents those contracts. Insurance principals reported that they were partially prepared with respect to the requirements regarding specialised personnel, and much less geared up for the systems infrastructure requirements of these standards.

The solvency II European directive codifies and harmonises the EU insurance regulation. This regulatory regime aims to improve consumer protection, modernise supervision, deepen integration with the EU and increase competitiveness. In the previous survey, respondents reported being only slightly geared for Pillar I (dealing with financial requirements) and Pillar II (dealing with governance and supervision), and reported medium levels of preparedness for Pillar III (dealing with reporting and disclosure). In the latest survey respondents indicated that they are more prepared for full Solvency II compliance of Pillar I and II and fairly well-gearèd for Pillar III. However, most respondents felt that the requirements of this directive were not proportional to the size and complexity of their business.
FinTech’s growing influence on Financial Services

FinTech is a driver of disruption in the market. Financial Institutions are increasingly likely to lose revenue to innovators, with many believing that their business is already at risk because of this. Traditional financial institutions have noted these market disruptions and are responding to them by increasing internal efforts to innovate and are placing disruption at the heart of their strategy. To this end they are learning to partner and integrate with FinTech companies, allowing for more innovation. To be able to provide a new digital experience for their customers, incumbents are even focusing on integrating their legacy systems with data analytics and mobile technologies. Such technological advances will not only create a new digital experience for the customer, but will also create increased security, more flexible processes, and reduce costs. Looking ahead, blockchain is expected to become part of the production system or process in the coming years. This increased adoption will have a notable effect on the payments/trade infrastructures, digital identity management, and post-trade settlement as these areas present the most relevant business use cases of blockchain in the Financial Services sector.

The challenges of FinTech and cybersecurity

All insurance respondents viewed FinTech as a key challenge. In the previous survey, half of respondents noted that FinTech could represent a long-term opportunity. From such a response, it appears that the insurance industry players may not yet be in a position to exploit the advantages offered by technology and may now be viewing such advancements as a hurdle rather than an opportunity. Banking respondents were evenly split as FinTech was deemed both an opportunity and a threat, equally in the short and long term. This differing approach to FinTech between the banking and insurance respondents could possibly indicate that banks are better equipped or have superior resources to manage technology and the changes it brings.

Cybersecurity is another crucial element in financial services. Banking and insurance sector respondents were asked for their thoughts on the matter with the majority highlighting that is a growing concern. 75% of banking respondents and 57% of insurance respondents claimed that threats to cyber security and the ability to defend against them were a growing concern. The remainder (25% of banking and 43% of insurance respondents) noted that it is a managed risk within their firm. No respondent noted that cyber security was a receding concern.
At PwC Malta, our purpose is to build trust in society and solve important problems. We’re a network of firms in 157 countries with more than 223,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com/mt