News release

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**Emerging markets still deprived of fit-for-purpose financial systems**

The lack of an efficient and resilient financial system is still holding back inclusive and sustainable growth in emerging markets. Policymakers, regulators and financial services organisations should more actively shape a financial system that is fit for purpose.

These are the main findings of a new PwC Project Blue report ‘*Geared up for growth: Shaping a fit for purpose financial system*’. In this paper, PwC sets out what an efficient, resilient and inclusive financial system looks like across eight key dimensions; and how leading emerging markets – Brazil, China, India, Indonesia, Mexico, Nigeria and South Africa – rate against its ‘fit for purpose’ targets. The assessment highlights considerable room for further improvement in key areas, ranging from financial inclusion to pensions and protection.

While growth in emerging markets continues to outstrip developed counterparts and hundreds of millions of people have been lifted out of poverty, developing a well-functioning financial system remains critical to tackling poverty and sustaining economic growth over the long term. Emerging markets need a robust and broad-based financial infrastructure to channel funds efficiently, draw people into the market economy and enable them to share in the benefits.

**The good news for emerging markets**

In the PwC research, all seven emerging markets perform well on private sector lending, which is known to drive growth. With the exception of Brazil, the banking spread (difference between bank lending and deposit rates) in the emerging markets is low, improving borrowers’ ability to service debt. Another key area in which most of the seven emerging markets do reasonably well is controlling the size of their banking system. Only the size of China’s banking sector – compared to its economy – could raise systemic concerns.

**South Africa: on the right track, but with a long way to go**

Although poverty reduction has stalled in recent years and it has the worst income inequality of all seven emerging economies, South Africa is showing the most progress towards a fit-for-purpose financial system. Four of the eight key areas for a healthy financial system are already supporting inclusive and sustainable growth, and while more work is needed – for instance on the high levels of indebtedness – the country is moving in the right direction in the other four areas.

**Nigeria: financial system significantly impeding growth**

This can’t be said about the other African country in PwC’s assessment. Not only has Nigeria by far the highest percentage of its population living in poverty, its financial system is also showing the least progress of all seven emerging markets. In five of the eight key areas, Nigeria’s financial system scores significantly below PwC’s fit-for-purpose targets, holding back inclusive and sustainable growth. However, the success of Nigeria’s auto-enrolment pension model is a bright spot.

**China and Indonesia underperforming in number of key areas**

Compared to the other emerging economies, China has the biggest difficulties with its pension asset management and the size of its banking system. China’s banks are facing a troubling collision of swelling balance sheets, high corporate debt levels and a rise in insolvency and default. Indonesia seems particularly off track when it comes to financial inclusion and a well-functioning housing sector.

**India: financial system showing mixed signs of progress**

Strong innovation coupled with regulatory support is proving to be a boon for financial inclusion in India, with the Indian payments industry standing out from its emerging market counterparts by driving above-average growth in non-cash payments. However, the country’s pension asset management and life insurance penetration are both significantly below healthy targets.

**Brazil and Mexico moving in right direction with e-payments**

Brazil’s household debt and comparatively high banking spread make its financial system vulnerable. But policymakers are actively working to reduce its banking spread. Another positive sign is the country’s use of electronic payments, opening up access to financial services for under-served communities. Mexico’s banking spread is already low, while it’s also actively promoting e-payments to accelerate economic development. However, it has more work to do on financial inclusion and life insurance penetration.

Hugh Harley, Global Emerging Markets FS Leader, believes policymakers, regulators and financial services organisations should be more active in shaping a fit for purpose financial system:

“A fit for purpose financial system fosters inclusion, investment, access to credit and support for people when they retire, while promoting efficiency and protecting against systemic risks. The development of this financial system isn’t organic or passive. You shape it. Strong regulation and enforcement are essential for financial systems to develop, so regulators across different market sectors should get on the front foot and work together.”

Andrew Nevin, FS Advisory Leader and Chief Economist at PwC Nigeria and Project Blue Global Leader, stresses that emerging markets should try and learn from their peers:

“Our analysis clearly shows that some markets are ahead of others in different dimensions. Ask yourself the question: what can we learn from each other’s experience? Specifically financial services organisations should realise that many of the ground-breaking innovations in FS are being spearheaded in Asia and other emerging markets. Without ageing legacy systems to hold them back, they have clean sheets upon which to harness the latest developments in technology and develop their own distinctive business models.”

**Ends**

**Note~~s~~ to editor:**

**About the report**

Drawing on the research, analysis and experience of PwC experts from around the world, the report seeks to define the end goal of a fit for purpose financial system and set targets against which current state and future progress can be gauged in seven leading emerging markets. Rather than being scientific, the targets within this framework are a reasonable assessment based on practical experience of what supports inclusive and sustainable growth in different markets.

The fit for purpose framework aims to help finance ministries and regulators actively shape financial system development by identifying gaps, defining priorities and learning from the experience of counterparts in other markets. It can also help to identify commercial opportunities for both domestic and international groups, along with FinTech innovators looking to bridge gaps and accelerate development.

The eight dimensions of a fit-for-purpose financial system:

1. Size of banking system: a banking sector should not be too large compared to the economy
2. Pension asset management: a higher ratio lowers the dependency of the ageing population on the working population
3. Mortgage book: a well-functioning housing sector improves personal consumption and is critical to the overall health of the economy
4. Banking spread: a lower price of banking improves borrowers’ ability to service debt
5. Financial inclusion: financial inclusion leads to higher productivity
6. Private sector lending versus banking assets: lending to the private sector drives growth
7. Electronic payments: electronic transactions curtail the black economy and give a boost to the economic growth
8. Life insurance penetration: a higher ratio demonstrates quality of social security and enablement

The report ‘*Geared up for growth: Shaping a fit for purpose financial system*’ can be downloaded [here](http://www.pwc.com/gx/en/industries/financial-services/publications/geared-up-for-growth.html).

**About PwC Project Blue**

PwC Project Blue explores the major trends that are transforming the global economy and competitive landscape for financial services (FS) organisations worldwide. It also sets out the implications of these trends for public policy and regulation, and how governments and regulators can forge an efficient, resilient and inclusive financial system.

**About PwC**

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