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2014 Banking Industry Outlook
Repositioning for growth
Agility in a re-regulated world

Deloitte Center *for* Financial Services

Contents

Foreword

Dear colleagues,

"It was the best of times, it was the worst of times…" So begins Charles Dickens' *A Tale of Two Cities*. While banking and capital market firms still have some ways to go, and thus this quote may not be true in the literal sense, industry leaders are looking forward to a better year ahead.

The good news is that the economy is showing some signs of life: balance sheets are stabilizing and consumer confidence is trending toward the positive. Revenues have also picked up in certain sectors, and credit availability is easing.

That said, next year will likely be one of continued challenge for industry executives. Margins are under extreme pressure, and business models and product structures are becoming more standardized, mortgages and derivatives being two examples. And regulatory concerns have shifted, from uncertainty over direction to uncertainty over long-term outcomes.

As firms begin to pivot toward growth, they will be challenged to remain relevant to their clients, realign business models, adjust to recent regulations, and attempt to innovate for growth. Firms will also continue to make strategic decisions, driven by capital constraints and demands for improved return on equity, divesting or acquiring in areas where they believe they can compete and win. We are seeing some renewed interest in innovation as well. Overall, banks and capital market firms will need to drive increased agility into their operations to take advantage of the ongoing uncertainty in the market, rather than simply waiting for more stable conditions to emerge.

We are pleased to share with you this outlook for 2014, based on original research combined with the insights and first-hand experience of many of Deloitte's leading banking and capital markets practitioners. Over the past year we have restructured our content into six major topical platforms, which are designed to explore both industry-wide competitive and market dynamics as well as examine tactical trends and opportunities within individual firms. Across all segments of the financial services industry, our 2014 outlooks rely on this new structure, providing insights aligned to the following:

- **Competition and markets** – Evaluates existing industry structure, competitive landscape, or market composition
- **Clients and products** – Explores emerging trends in retail or institutional customer behaviors, attitudes, and needs
- **Governance, risk, and compliance** – Reviews industry risk management practices and regulatory mandates and their potential financial and strategic impacts on industry participants
- **Financial management** – Highlights how finance leaders can better organize and deliver needed insights to their firms
- **Organizational effectiveness** – Analyzes how firms have responded to talent, process, and other operational challenges
- **Technology dynamics** – Examines the evolving role of technology in the industry

We've included a graphic element, which you'll see throughout the report, that provides a signpost as you navigate the outlook. If you pick up more than one of our financial services outlooks, you'll be able to easily compare how the various industry sectors are addressing each of the six topics by visiting the corresponding section. For example, you'll see technology trends by visiting the corresponding dark blue sections in all nine reports. We hope you find this report insightful and informative as you consider your company's strategic decisions in the upcoming year. Please share your feedback or questions with us. We value the opportunity to discuss the report directly with you and your team.

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Switching gears amidst macro uncertainty

The last five years in the banking world seem truly extraordinary, even to the most casual observer. While much still remains to be sorted out, especially on the regulatory front, the industry for the most part has taken a number of proactive steps to adapt to the new environment.

Deloitte's 2013 Banking Industry Outlook suggested that "making hard decisions about where to compete" would be one of the key issues facing banks. Over the last year, we have seen many banks make these strategic choices – deciding which businesses are "core" and simplifying operational infrastructure. The good news is that the path of strategic reconfiguration has become clearer, making 2014 the year that banks might see the dividends from their strategic choices.

2013 has given some good reasons for this optimism. The S&P 500 index reached new highs. The steady recovery in home prices continues in the housing market, reaching their five-year high in July.[1] The banking industry also showed improvement, posting record quarterly profits and capital levels in the second quarter.[2] However, third quarter earnings convey a mixed story, reflecting lower mortgage demand and other pressures.

There also appear to be several hurdles down the road. Near-term global growth will likely be subdued, surpassing three percent only in 2015.[3] In the United States, the expectation is worse: the real GDP growth rate is expected to be below three percent until 2016.[4] The continuing political gridlock and unresolved fiscal issues are other factors dampening the current sentiment.

With possible signs of tapering occurring soon, the Federal Reserve's unwinding of unconventional monetary policy is another factor contributing to uncertainty in the markets.[5] Rising interest rates could impact banks' capital levels via unrealized losses, and may not provide relief to net interest margin (NIM) pressure until loan demand picks up. Furthermore, interest rate risk, whether repricing risk or yield curve risk, could pose challenges to some banks, if not properly managed.

On the regulatory front, there is still considerable anxiety as to how the strict enforcement climate may play out in 2014.

With this backdrop, the big questions still remain – how can banks generate better growth, and how can they further support return on equity (ROE)?

To generate higher ROEs in this re-regulated world, it is clear that banks need to do more. Continuing to keep a sharp eye on cost management and designing more efficient operating models could be critical.

But following years of heavy focus on compliance and cost management, banks' main priority in 2014 is likely to shift to repositioning for growth – making this year critical for institutions' future success. Many banks have started along this track already. But 2014 may be when the pace quickens and agile leaders distance themselves from the pack.

Success in this race will likely require across-the-board effort:

- Becoming better acclimated to the regulatory climate
- Bolstering risk management practices
- Deploying capital more efficiently
- Innovating across multiple dimensions
- Enhancing customer experience in new ways
- Developing future business leaders

But, as Bob Contri, vice chairman, U.S. financial services leader, U.S. banking and securities leader, Deloitte LLP, observed, "Agility might be one of the most crucial traits in creating success in this highly uncertain and re-regulated world."

Specialization and consolidation to intensify competition

Regulatory forces continue to shape the competitive dynamics of the industry. Compliance and capital pressures are pushing large banks to rethink the businesses they want to be in and the customers they serve.[6] Jay Langan, partner, Deloitte & Touche LLP, puts it this way: "Large banks are specializing in their core competencies and geographies where they believe the return on capital is justified."

Additionally, regulatory pressure is trickling down to smaller banks. High compliance and governance costs are consuming a sizable share of their resources, hurting their competitive position.[7]

On the international stage, banks are re-examining their business profile against Basel III capital requirements and other strategic priorities. European banks are shoring up their capital levels amid prospects of stricter regulatory oversight. Consequently, many banks – especially the large universal ones – are trimming domestic and international assets that are riskier, noncore, or yielding low returns on capital.

Amidst this regulatory overhaul, many nonbanks are taking advantage of limited regulatory oversight and banks' capital pressures. They are increasingly expanding beyond the realms of technology and infrastructure-centric payment platforms to traditional banking products, such as business lending.[8] These pressures in commercial lending, combined with low loan demand, are leading some banks to ease underwriting standards and loan covenants to remain competitive.[9]

What's new for 2014

Strategic decisions made in the recent past, particularly efforts to specialize, could begin to intensify competition in 2014; however, the overall structure of the industry is not expected to change dramatically.

Large banks may likely pursue organic growth in the areas in which they have chosen to specialize, as regulatory constraints limit the ability for transformational mergers and acquistions (M&A) deals.[10]

On the other hand, strong midsized banks may seek growth in two ways: (1) acquire specialist providers or smaller institutions with attractive deposit bases and assets, and (2) leverage their nimble structure to expand organically in markets dominated by large banks. Through either organic growth or M&A, competition in the midsized sector will likely increase in 2014.

Consolidation may likely be a growing trend among smaller banks as regulatory pressures flow down to these institutions.[11] "Compliance costs may further depress earnings at smaller community banks and encourage them to seek merger partners to gain scale," says Tom Kaylor, principal, Deloitte Financial Advisory Services LLP.

As a result, the M&A market is likely to gather pace in 2014, as midsized banks seek asset growth and small banks look for scale. However, a longer regulatory approval process may be an impediment to volume growth.[12] Actively engaging regulators at the onset of M&A plans will likely make for a much smoother process. Further, banks should ensure M&A plans fully align with their strategies, fit within their risk and governance structure, and are rich with efficiencies, especially in today's cost-conscious environment.

Shifting the focus to foreign-owned banks, regulatory pressures may force the sale of capital-intensive businesses that aren't generating sufficient returns. European banks' retreat may limit their ability to capture benefits from a recovery in the U.S. and growth in other international markets.

Moreover, Richard Nunn, partner, Deloitte Canada, Deloitte & Touche LLP, noted, "Canadian banks are facing challenges with domestic growth and therefore continue to explore growth opportunities outside their borders in targeted areas such as wealth management. They also are well capitalized and positioned to take advantage of M&A opportunities that may arise from continued European bank deleveraging in the U.S."

Lastly, competition from nonbanks could also increase in the payments and business lending space, as they continue to benefit from limited regulatory constraints. Some of these nonbanks from the technology sector are leveraging innovative technologies and proprietary customer data to fuel growth. Others that have developed peer-to-peer and crowdfunding platforms may evolve and grow in 2014. However, traditional banks may retain their edge in chosen specializations through their scale of operations, "regulated entity" status, and greater customer data advantage.

Figure 1. Competition to intensify in the U.S. banking industry

Competitors	Potential action in 2014	Impact on competition
Large banks	• Continue to specialize in select markets, customers, and products; divest non-core operations	
Mid sized banks/regionals	• Pursue organic expansion and acquire other banks to gain scale	
Small community banks	• Consolidate to share compliance burden	
Non-U.S. banks	• European banks to deleverage to shore up capital levels; retrenchment to reduce competition in U.S. • Canadian banks to pursue organic expansion and M&A opportunities in select growth segments	
Nonbanks	• Take advantage of limited regulatory oversight and leverage disruptive innovation to grow	

Increase **Mixed**

Source: Deloitte Center for Financial Services

The bottom line

Regulatory and capital pressures along with increased competition from nonbanks and international players will probably make the U.S. banking sector more competitive in 2014. Large banks' broad efforts to specialize and smaller banks' need for scale could result in a more active M&A market. Banks should ensure that such M&A moves complement their specialization strategy and provide them the operational flexibility to adapt to changing environments. In addition, involving regulators early in the process could help banks in their due diligence and potentially overcome approval delays. In response to nonbank competition, banks can seek partnerships where opportunity for innovation exists, and continue to build their expertise in data privacy and security – a necessity for success in financial services.

Finding new ways to differentiate the customer experience

Banks have become increasingly focused on growing revenue using a variety of strategies, including new fees and thresholds on checking accounts, re-pricing of premium services, bolstering cross selling efforts, and a greater focus on fee-based businesses such as wealth management.

However, some of these efforts to spur top-line growth were met with intense customer resistance and regulatory scrutiny, forcing some banks to rethink their pricing strategies. Revenue growth was further challenged by weak loan demand and rising interest rates, which began to negatively impact mortgage originations.

Moreover, regulations on debit interchange fees and overdraft programs have squeezed returns, while heightened scrutiny on other banking products has made banks cautious about product innovation.[13] These pressures are forcing banks to design more competitive product offerings with pricing plans that appease both customers and regulators, but enhance revenue growth. In spite of these constraints, banks can reinvigorate their revenue growth strategies through a more thoughtful product mix and refined customer segmentation approach.

Some firms have already begun to put new revenue growth plans to work by targeting affluent customers for expanded wealth management services. However, the success of this strategy will rest heavily on more creative approaches to customer insights and more robust methods in data analytics. In this regard, much work remains for 2014.

What's new for 2014

Differentiating customer experience should become a major plank to drive revenue growth in 2014. This may require fresh approaches through improved processes, better technologies, and deeper customer insights, all of which could benefit immensely from more rigorous customer data management.

By investing in data and analytics across the banking value chain – from customer onboarding to complaint resolution – banks can gain unique new insights about their customers and products. These investments can enable banks to better understand their customer needs, refine customer segmentation approaches, design more compelling value propositions, and identify impactful differentiation strategies, such as service enhancements and other next-best actions. All of these, in turn, will help banks improve their cross selling and drive revenue growth.

Building a differentiated customer experience based on improved customer insights is not a departure from existing approaches – in fact, it is meant to improve most banks' current efforts. Jeff Wordham, principal with Doblin, Deloitte Consulting LLP's innovation unit, explained, "To excel, banks have to spend more time understanding the unmet needs and motivations of customers. This requires the use of more nontraditional approaches to generating insights, including ethnographic research, mining social media, and advanced data analytics."

For instance, in retail banking, better customer insights can help in designing the "bank of the future," characterized by superior experience in digital and mobile channels together with more technology-enabled branch formats – automated outlets largely staffed with advisors to assist customers in making better financial decisions.[14]

A differentiated customer experience is the result of an enterprise-wide effort, involving even seemingly unrelated tasks and processes. As John Kocjan, principal, Deloitte Consulting LLP, explained, "Improving customer interactions is an effort for the entire organization. Banks should consider how all of their operations and priorities, even those like cost efficiency and data security, support a great customer experience."

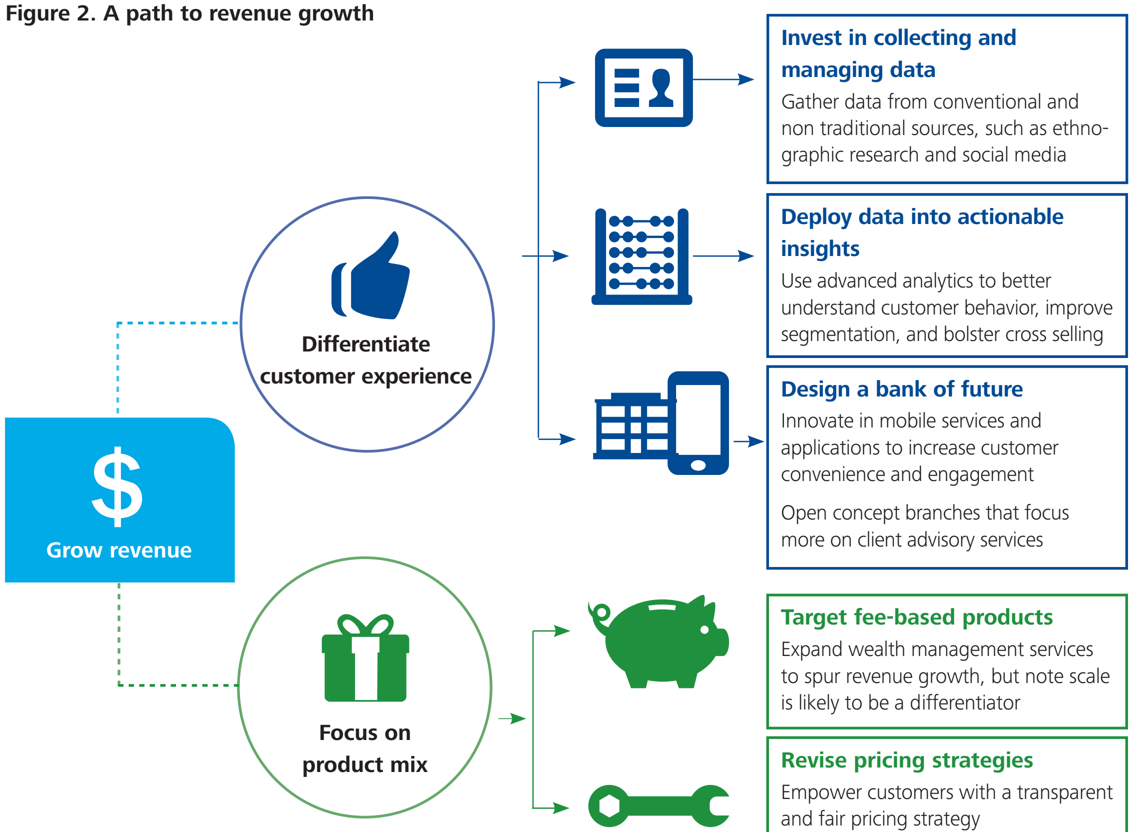
That said, many banks will also focus on reshuffling their product mix to generate increased revenue, particularly from fee-based businesses. One such area is wealth management, where competition is likely to intensify in 2014 and potentially hurt profitability, unless asset growth favors everyone alike. This could mean scale will become all the more important, benefitting large wealth management providers. Smaller shops could fend off competition through better customer service and attractive pricing, not just for wealth management services but for other banking products as well, especially with business clients.

Attempts to re-price existing services will likely continue, but to gain more customer acceptance, banks may strive for greater transparency and put the customer in control of when and for what they pay. To serve institutional clients with international operations, large banks will continue to expand their geographic reach and technology connectivity for transaction banking products. Small or regional banks that do not have a global presence can develop targeted service offerings, such as treasury and cash management for multicurrency accounts and upgraded corporate payment systems, or also consider partnering with non-U.S. institutions.

The bottom line

Delivering high-quality differentiated customer experiences will likely be critical in driving revenue growth. Larry Luebbers, partner, Deloitte Tax LLP, noted, "Banks should try to pursue a data-driven, customer-centric approach that focuses on providing a superior experience and the right amount of human interaction, not just less." Putting consumers in greater control of their banking relationship will likely make pricing or product changes more palatable. Banks that better leverage advanced analytics to translate big data into valuable insights could be better positioned to meet customer needs, offer a superior customer experience, and simultaneously deepen their product relationships with better cross selling.

Figure 2. A path to revenue growth



Source: Deloitte Center for Financial Services

Acclimating to regulatory pressure and "getting to strong"

Regulations and compliance continue to dominate the attention of bank executives. In 2013, three years after the Dodd-Frank Act was enacted, the industry faced a new wave of rules covering capital, liquidity, consumer protection, anti-money laundering (AML), and risk management. Basel III rules and various other regulations in the U.K. and the euro area further complicated the global regulatory landscape.

Extensive enforcement of regulations in 2013 also created additional stress, particularly for large institutions, which were the main targets of attention until recently. The Consumer Financial Protection Bureau (CFPB) has added to this pressure with various new rules on mortgages, credit cards, and student loans. Furthermore, the industry has been adjusting to the new era of macroprudential oversight, evident in regulators' broad focus on systemic risk.

"Most compliance efforts have focused on remediation and redesign of the banks' operations," said J.H. Caldwell, partner, Deloitte & Touche LLP. Many banks have increased investment in their compliance infrastructure and made efforts to build improved risk cultures within their institutions. In light of regulatory pressure, banks have focused on building more robust and comprehensive data systems to better drive risk, business, and compliance decisions.

Despite many improvements – and more than $100 billion in restitution, fines, and litigation costs paid to date – much work remains to be done to excel in risk management and governance.[15] Continuation of these efforts may be essential as the regulatory pressure is not expected to dissipate in the near future.

What's new for 2014

In 2014, the industry is likely to get more acclimated to the regulatory climate by moving past remediation issues to focus on instituting strong compliance programs across the organization. In "getting to strong" in their risk management programs, banks should continue bolstering their risk practices and governance.[16] According to Deborah Bailey, director, Deloitte & Touche LLP, "2014 will be the year of getting it done, and getting it right."

In seeking to improve their risk infrastructure, banks are likely to pay greater attention to data and analytics. These investments could empower banks to have an enterprise-wide view of customers and to proactively identify and address any problems. They will also help in having more informed conversations with regulators, and enable them to appreciate the specific nuances of different business decisions.

In 2014, regulatory pressure is expected to flow downstream to smaller institutions, encouraging them to retool their compliance infrastructure. Proposed stress tests for midsized banks may expose deficiencies, forcing some to restructure their risk profiles. Smaller institutions may need to invest in new talent and training to ensure that adequate compliance resources are available. As a result, regulatory compliance could become more ingrained in the broader industry culture.

Firms that are able to institutionalize compliance in an effective and efficient manner could create competitive advantages, allowing them to best pursue their growth agenda. But as Tom Rollauer, executive director, Deloitte Center for Regulatory Strategies, Deloitte & Touche LLP, said, "It is also essential that banks continue to work more collaboratively with regulators in strengthening their compliance programs."

Boards are likely to become more engaged in risk governance in order to reshape bank risk culture and to review business strategies with a sharper focus on risk controls. Boards could be more emboldened to challenge management, particularly regarding risk appetites, and document their recommendations for regulators. It is also expected that they will interact more with staff below the executive level, to ensure the tone at the top is well reflected in the firm's culture.

As cyberattacks increase in numbers and sophistication in 2014, the industry should continue its efforts to secure its systems, and increase the focus on issue escalation and governance. Developing mature cybersecurity management will likely be a primary goal for large and small banks alike. To achieve this goal, boards and senior management should be better informed and more actively engaged in strengthening the bank's cybersecurity infrastructure and processes.

The bottom line

Banks should continue to leverage new data and technology to further develop an enterprise-wide view of risk, customers, and counterparties. As regulatory pressure flows down from the largest institutions, smaller banks should consider additional investments in compliance infrastructure, and a better integration of risk management into their board governance. While addressing cyber threats will be an ongoing concern in 2014, banks that pay greater attention to risk governance and communicate effectively with regulators will be in a more favorable position to drive business growth.

Leveraging data for capital efficiency and integrated reporting

Banks are facing increased pressure to drive shareholder value. Despite compressed margins and low loan growth, the industry has made substantial progress in improving its financial performance by limiting expenses and growing noninterest income.

Through the second quarter of 2013, earnings had posted year-over-year growth for 16 consecutive quarters and reached a record nominal high of $42.2 billion. However, ROE for banks larger than $10 billion, at 10.6 percent in the second quarter, was still below the 1993-2006 average of 14.4 percent (see Figure 3).[17]

To help support additional business demands, the role of the chief financial officer (CFO) has evolved to be more strategic in nature, especially involving efficient capital deployment and cost management. As part of this change, finance functions have begun building integrated reporting capabilities and analytical skills. Despite some progress, firms have yet to fully develop and utilize these tools.

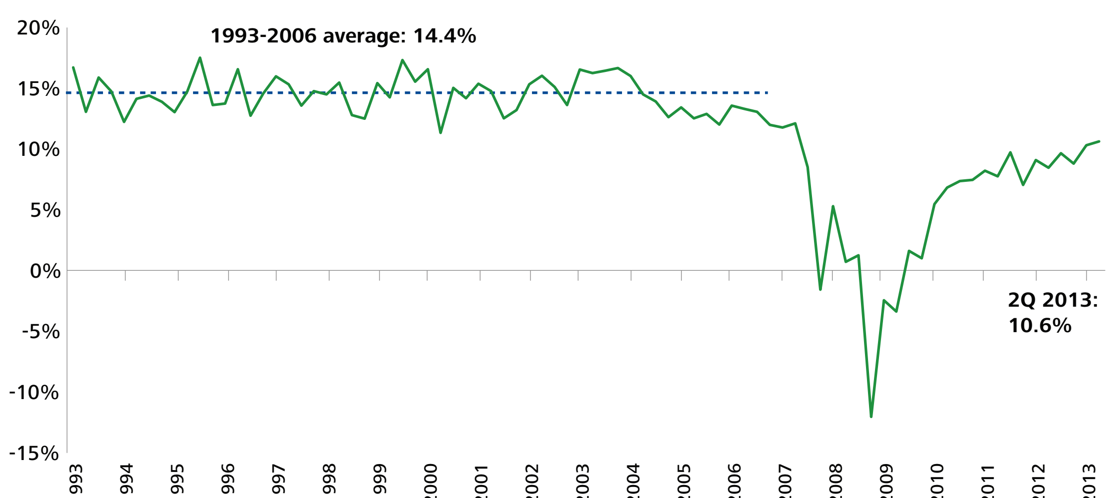
What's new for 2014

We anticipate 2014 to be the year for CFOs to more enthusiastically leverage data and analytics to drive profitability and capital allocation decisions.

Going forward, earnings are likely to be challenged on multiple fronts. One such headwind is likely to be interest rate volatility. Banks are unlikely to realize better yields from rising rates until the economy drives sufficient loan demand. In the meantime, rising rates are reducing demand for mortgages, further hindering revenue growth.

CFOs could also be challenged to manage interest rate risk in the securities portfolio. Aside from developing prudent interest rate strategies, banks must consider some of the related accounting implications as well. While losses from the available-for-sale portfolio may hurt capital, classifying securities as held-to-maturity could impact liquidity and saddle a bank with lower yielding assets as rates rise. Interest risk will likely continue to be a focus for many banks.

Figure 3. Return on Equity for banks with more than $10 billion in assets



Source: Federal Deposit Insurance Corporation, Quarterly Banking Profile, 2Q 2013

Another potential area for success in 2014 is analytics. Improved reporting and finance infrastructure that allows for diligent cost management will become more important than ever, as disciplined expense controls can enable banks to make many needed investments.

Stress testing, Basel III, and capital planning requirements may drive two priorities for CFOs: growing the capital base with a particular focus on tangible common equity and building a new finance infrastructure that can provide accurate and reliable data for capital decisions. Banks looking to create advantages in 2014 may consider integrating capital efficiency tools at the business level. Realtime capital allocation tools and advanced scenario planning at the transaction level may enable more informed risk-and-return decisions.

The bottom line

Improved reporting infrastructures and analytics are likely to be essential to strong financial management in 2014. In light of many earnings headwinds, CFOs can support profitability through more data-oriented investment decisions, improved capital deployment, and more diligent cost management. Greater analytics may also yield better risk management, especially regarding interest rate exposure, a priority in 2014. These efforts, along with stronger capital rules, may result in improved yet less volatile earnings in the future.

Building organizational agility

In the absence of robust top-line growth, many banks had no choice but to implement ambitious cost cutting measures over the last five years. Seeking operational efficiencies, as a discipline, was taken to new heights. But as John Kocjan, principal, Deloitte Consulting LLP, put it, “It is not fashionable to talk about this anymore, but the journey has not ended. Operational efficiency is still a top concern for many of our bank clients.”

Banks today need new operational approaches encompassing ideas, including how best to invest in and deploy technology to make the banking organization more effective. But technology by itself is not a panacea for operational inefficiencies – it also needs appropriate governance mechanisms and leadership to be effective. Given these realities, banks need a new guiding principle to move forward into an uncertain future. Organizations may need to embrace change and reinvent themselves to succeed.

What's new for 2014

Chris Harvey, global financial services industry leader, Deloitte Touche Tohmatsu Limited, summarized the focus for 2014: “Agility will become key to capitalizing on future growth opportunities in an increasingly volatile and uncertain world.” Agility is the ability to rapidly and thoughtfully respond to changing conditions, moving seamlessly from one position to another. To assume this virtue, banks should consider building agility in three areas – strategy, ecosystems, and minds. (See Figure 4.)

For instance, banks can create agile strategies to respond to evolving product channels like mobile payments by streamlining decision processes, adopting new technologies, and partnering with nontraditional players.

On the operational side, firms may look to build agile ecosystems – operating models that allow firms to seamlessly switch between an internal resource and an external utility, whichever is the most efficient. One way to do this is by creating shared services for standardized yet costly processes, such as know your customer (KYC) and anti-money laundering (AML) compliance. Doing so may create cost sharing of operations that offer limited competitive differentiation.

Building efficiencies in the traditional branch channel and fundamentally rethinking a firm’s cost structure can also contribute to agile ecosystems. In light of cost pressures and an emphasis on cross-selling, banks are already beginning to rethink their branch configurations. Deploying kiosks and advanced ATMs to deliver services at a lower cost while automating once manual processes may allow for lower operating costs, faster processing times, and reduced errors. Rethinking size and services offered through the branch infrastructure, without jeopardizing customer experience or revenue growth, will further contribute to an agile ecosystem.

Building agility in the minds of their staff and management is also important. Acquiring and developing leadership expertise – especially in operations, technology, finance, and compliance – may continue to be a priority and also a challenge, as these resources are in high demand. Creating the right culture, along with incentives that support fast thinking and creative solutions, can help banks create new efficiencies and better ways to capitalize on growth opportunities.

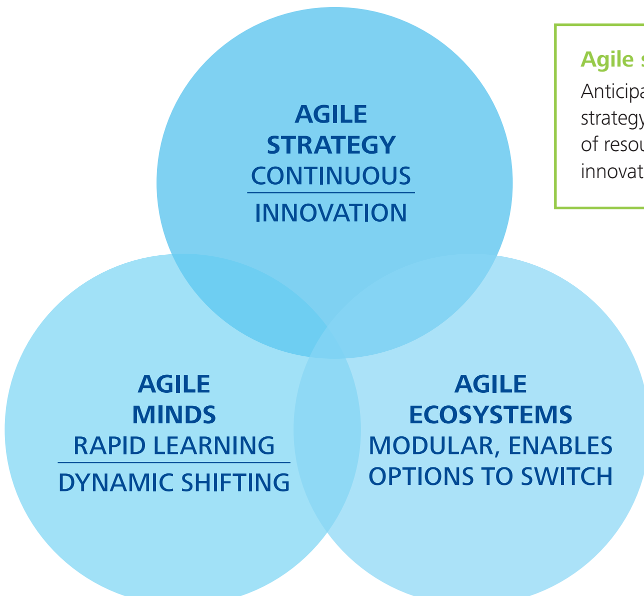
While the future is uncertain, building agile strategies, ecosystems, and minds will leave banks well-prepared for future challenges and opportunities. “Agility will allow banks to make quicker decisions, scale up and down more efficiently, and become better innovators – traits that will set banks apart from the pack,” says Rick Porter, partner Deloitte Australia, Deloitte Touche Tohmatsu.

The bottom line

Given an uncertain environment, agility will be critical in supporting operational effectiveness and growth. Streamlining decision-making and seeking collaboration with nontraditional firms may result in more effective strategies and improved innovation. Fundamentally rethinking the cost structure by building industry utilities and reassessing branch structures can support agile ecosystems. Banks can build agile minds by rewarding creative solutions for inefficient processes. These efforts will enable banks to thrive in the competitive environment they are certain to face in the future.

Figure 4. Three characteristics of organizational agility

To combat uncertainty, agility will become a key determinant of success. . .



Agile strategy
Anticipation, formulation of strategy, and accumulation of resources are continuous; innovation is a core skill

Agile minds
Improves the organization's pace of producing outputs through rapid learning and the ability to dynamically shift focus

Agile ecosystems
Creates modular units to deliver value by combining internal and external networks which enable options to switch

Agility is not the only thing:
A sound strategy, effective financial and operational management, and ultimately execution are prerequisites.

Source: Rick Porter, partner, and Sally Ballantine, director, Deloitte Touche Tohmatsu Limited, Australia

Supporting growth, while bolstering infrastructure

With some exceptions, many recent technology investments in the banking industry have perforce been centered on regulatory compliance and risk controls. However, one area that has received its fair share of attention is mobile banking.[18] Even so, one might argue that the mobilization of banking up to this point has only been incremental.[19]

On the other hand, core banking transformation, until recently, did not receive the attention it deserved as many banks had been too fixated on regulatory and other challenges to embrace large-scale, multiyear core banking transformation projects.

In the area of big data and analytics, while many banks have enhanced their capabilities, leveraging these investments for real-time decision-making and delivering superior customer experience still remains out of reach for most banks.[20]

But amidst all these developments, there remains a real concern about various technology risks. Given the increasing reliance on technology, inaccurate data, inconsistent reporting, and system glitches have the ability to quickly disrupt a bank's operations, strategy, and reputation. Further, the increasing sophistication of cyberattacks, including the fraud and operational risks they pose, has become a top concern of banks and regulators.[21]

What's new for 2014

As Brian Johnston, banking and securities consulting leader, Deloitte Consulting LLP, observed, "Technology will be at the center of almost everything banks do in the areas of growth, innovation, compliance, and operational efficiencies."

Technology investments are likely to be done in a much more deliberate way with a focus on growth, customer experience, and security. Creating a differentiated customer experience that unifies mobile, online, and branch channels in a more seamless fashion could further enhance banks' value proposition.

Banks could also be looking to grow revenue by leveraging technology to better understand consumer spending habits, preferences, and product demand. Striving for real-time processing, tracking, and decision-making will untether banks from legacy systems, creating a world of greater efficiency and success.

These opportunities extend to corporate and institutional clients. Brian Shniderman, principal, Deloitte Consulting LLP, stated, "The market for corporate customers is particularly rich with significant opportunity to use technology including corporate mobile solutions to create more value, reduce risk, and drive more revenue." Using technology as the key enabler, banks can develop solutions that allow corporate customers to consolidate payments, track and process foreign taxes more efficiently, and better manage travel and expense budgets.

Strengthening compliance and risk management system is expected to be an ongoing concern. As cyber risks become more pronounced, the industry should continue to strengthen its defenses across the threat landscape. Improving risk governance, adopting a more holistic approach to cybersecurity, and getting the board and the C-suite more engaged in cyber risk management are all likely to be crucial.

In the area of core banking transformation, as banks pursue new growth strategies, willingness to invest in this area should be higher.

Lastly, to enhance the effectiveness of large-scale technology transformation projects, business leaders may need to be more engaged in execution, perhaps coleading these initiatives with IT leaders.[22]

Figure 5. Technology is a central driver of business priorities

Revenue growth

Enhance customer experience with better digital offerings

Leverage data from compliance infrastructure and use analytics to gain meaningful insights

Risk and compliance

Strengthen compliance and risk management systems, and get the board more engaged in management of cyber risk

Operational effectiveness

Enhance effectiveness of large-scale technology projects with more engagement by IT leaders in execution

Source: Deloitte Center for Financial Services

The bottom line

Improved technology is the cornerstone of many industry priorities. As needs are numerous and varied, banks can take a holistic approach to technology investments and focus on major priorities: creating a more seamless customer experience across all delivery channels, improving security to thwart cyberthreats, and upgrading data collection and analysis for regulatory and growth initiatives. Banks should seek to leverage recent investments in compliance infrastructure to improve cross-selling and grow revenue, while keeping an eye on the upcoming need for real-time processing and decision-making platforms.

Next steps in repositioning for growth

The banking industry appears to be at a turning point in the post-crisis era. Even though there is considerable uncertainty around regulatory impact and economic growth, there are a number of positive signs that banks are now ready to pick up their pace in pursuit of growth.

In 2014, banks are likely to continue sharpening their strategic focus while concentrating efforts in areas where they believe they have the best chance of boosting return on capital. To compete more effectively and to offset rising compliance pressures, small and midsized institutions will likely seek scale through M&A.

Recognizing the customer experience as likely the most fertile ground for differentiation, banks may leverage technology to improve their value proposition in new ways. Innovation is likely to be extended to new frontiers, with quicker progress towards a unified digital and branch experience.

The industry as whole should become better acclimated to regulatory scrutiny, even though this pressure is unlikely to dissipate in 2014. Risk management systems and compliance infrastructures will be enhanced, but not at the expense of business growth and investment elsewhere.

In seeking better return on capital, finance executives will be keen to expand the capital management discipline across the organization. CFOs will also look to play a more strategic role at their institutions.

On the operational front, banks will attempt to make their organizations more agile to better respond to both future opportunities and threats.

Many of the ideas mentioned above will rely on technology, especially new digital platforms to drive superior performance and enhance customer experience. While core banking transformation might happen only at a moderate pace, banks will seek to bolster their technical defenses to minimize negative operational impact from cyberattacks.

While the priorities may seem varied, the overarching theme for 2014 will be an industry repositioning for growth, seeking a bright future ahead.

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The Center wishes to thank the following Deloitte client service professionals for their insights and contributions to this report:

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The Center wishes to thank the following Deloitte professionals for their support and contribution to the report:

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