2017 Banking & Securities Outlook

As the industry matures on many fronts, uncertainty about policy shifts could weigh heavily

Initial market reactions to the unexpected election outcome in the United States have indicated improved prospects for banks and capital markets firms in 2017. However, ongoing structural changes are likely to continue in the form of new operating models and investments in emerging technologies for greater efficiencies and competitiveness. Meanwhile, banks and capital markets firms are expected to deepen their engagement with the fintech ecosystem as the trend towards digitization accelerates. In this fluid environment marked by policy uncertainty, how will banks and capital market firms respond?

Consumer banking

Performance remains resilient, but needs a boost

Interest rate increases will spur **modest margin expansion** even as loan growth picks up.

Operationally, **balancing cost management** programs with investments for the future may present difficult trade-offs, especially amid regulatory uncertainty.

Culture, conduct risk, and sales practices are likely to be headline regulatory issues for banks, accompanied by ongoing active enforcement.

Cloud-based platforms, robotic process automation, and cognitive technologies are expected to be top priorities, along with a push to **replace aging core systems.**

The **wealth management business** could undergo rapid structural shifts in response to the proliferation of robo-advice, although uncertainty about the DOL rule may force delays of operating model decisions.

Selective partnerships with marketplace lenders may be highly sought to attain lending business diversification and scale.

Trading and M&A

Still grappling with long-term sustainability

Regulatory demands may remain high amid **near-term policy ambiguity**, but the industry is getting better at taking constant change in stride.

Even as capital markets businesses answer tough questions about their long-term return potential, banks with strong franchises that have **"stayed the course"** could see their patience rewarded.

Strong M&A activity at the end of 2016 **points to a strong start** to 2017, but the lack of policy and regulatory clarity may spur reconsideration.

Complex organizations will likely pursue **cost-mutualization** both internally and among their industry peers as an immediate solution to reducing cost centers.

Blockchain working groups between leading banks will likely ramp up to test trading and reconciling OTC credit and equity derivatives.

Automation will drive new efficiencies across the securities lifecycle, but requires the **creation of strong governance structures and control mechanisms.**

Commercial and transaction banking

Transaction-based businesses to become more critical

Uncertainty over US trade policy may induce reassessments of global trade activity and the medium-term revenue pool in transaction banking.

Capital-light, transaction-focused businesses continue to become more important even as customer expectations shift toward **end-to-end digital solutions.**

Banks will pursue the externalization of service operations, as benefits from process reengineering prove fleeting.

The phase-in of net stable funding ratio and other **balance-sheet-related regulations** may force banks to reexamine pricing and client relationships.

Certain portfolio risks, specifically those tied to **volatile commodity exposures**, will require close monitoring.

Payments

Towards a faster and more customer-friendly system

An aggressive move to **faster, seamless, and secure digital payments** is expected to require heightened collaboration within and outside of the industry.

Payment providers should increasingly turn to **value-based customer experience solutions** in an effort to drive long-term profitability.

Cybersecurity, IP protection, and real-time payments will likely top the risk and regulatory agenda for payments.

Bots, biometrics, and encryption are expected to be immediate technological priorities for payment transaction solutions.

Market infrastructure

Heading towards a resilient and consolidated tomorrow

Consolidation to pursue **new revenue streams and efficiencies** is expected to remain a structural theme, although policy uncertainty could induce some near-term caution.

An acceleration of the **shift toward nontransactional revenue** could see data becoming a strategic earnings driver.

Automation and investments in new technologies are likely to drive future value creation while cloud adoption will help rationalize costs.

The **regulatory push for enhanced security** and reporting will act as a catalyst for institutional modernization.

2017 key priorities

• CECL • Cloud • Conduct risk • Cost mutualization • Customer experience • Cybersecurity • DOL • Faster payments • Fintech • "Business As Usual" regulatory compliance • Reinvent operating models • Recovery and resolution planning • Robotic Process Automation • Sales practices

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