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?

2017 Banking & Securities Outlook

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

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

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

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

Regulatory demands may remain high and long-term policy ambiguity, but the industry is getting better at having constant change in stride. As capital market 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 in 2017, but the lack of policy and regulatory clarity may still spur reconsideration.

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 real-time and end-to-end digital solutions.

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

An aggressive move to faster, seamless, and secure digital payments is expected to continue the rapid growth in payments as a strategic driver.

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

Consolidation to pursue new revenue streams and efficiencies is expected to grow as 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.

Market infrastructure

Automation and investments in new technologies are likely to drive future value creation while cloud adoption will help improve cost efficiencies.

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

Payments

Cybersecurity, IP protection, and end-to-end payments will likely top the risk and regulatory agenda.

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

Cybersecurity, cost-mutualization and efficiency are major potential drivers for wealth management business.

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

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

Transaction-based businesses to become more critical

The current and future regulatory agenda for payments.

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