

Banking industry: Top issues for 2024

Transcript

NARRATOR: Welcome to The Industries Podcast series, where Grant Thornton shares information through an industry-specific lens about the most important business issues of the day.

GRAHAM TASMAN: In the banking industry, 2024 will be a year to see the impact of interest rate changes and timing, a renewed focus on regulatory changes and impacts of emerging trends including artificial intelligence. I'm Graham Tasman, Banking industry leader for Grant Thornton, and here are the topics that should be top of mind among leaders in the industry in 2024.

First among these is interest rate risk. It does remain the main focus. And finally, in December, the Fed did give some better direction than we've had for most of 2023 with regard to reducing rates and when that will happen. It looks like probably three 25-basis-point reductions, perhaps starting in the second or third quarter through 2024.

On the lending front, loads actually increased slightly in Q3 of 2023, just about a percent, and it does remind us the economy is resilient. Also with recent unemployment numbers at the end of 2023 going down shows a strong labor market. With lending terms and credit continuing to be issued conservatively, the good news on that it's kept credit quality relatively stable. And so additionally, institutions are trying to develop strategies to make deposits stickier. But in a nutshell, with all of that as a backdrop, banks have done a pretty good job of weathering the storm in '23, but there is still uncertainty in the market. So what we think to be able to look out for in 2024 are institutions who can seize the moment amidst the uncertainty to gain competitive advantage, and examples of this are doing things like scaling internal platforms; migrating systems to the cloud; investing in artificial intelligence; really anything that builds on the efficiency and cost effectiveness of operations and execution. Other investment examples are investing in ERP systems to run finance new lending platforms, but also interest around planning solutions. So while things like data and analytics are always important, we see banking institutions showing a much stronger investment interest in forward-looking analytics solutions. The other investment area that's hot these days is in payments, and so banks looking to extend their partner network and provide newer capabilities that fall within good regulatory hygiene, including buy now, pay later, embedding these capabilities with the whole digital experience.

In terms of managing risk and navigating the regulatory climate for 2024, in many respects, it's going to be more the same. Regulatory compliance requirements continue to grow. We saw in 2023 enhanced expectations around capital requirements, capital buffers. Now with the emergence of artificial intelligence, there's question around how to regulate that. What banking institutions I think will do better in '24 is taking a more risk-based approach to compliance. Through things like comprehensive risk assessments institutions will continue to invest and enhance their fraud detection capabilities, invest in capabilities around managing any money laundering, providing things that help on cyber protection, all that will continue. But the emphasis will be: try to make more strategic attempt at managing risk and not just being reactive to what is coming st the institutions from the regulators, but trying to get out ahead of that.

On the M&A front, we still see very little M&A activity relative to 2021, while '23 had some notable M&A activity, some of it was special circumstance like the Bank of California acquisition of Pac West. Because of the distressed nature of that, it did go pretty quickly, but as long as interest rates and the climate for interest rates remain high and we have this long regulatory approval timeline for M&A, it's still going to be muted into 2024.

So really that's how we see the banking industry shaping up for 2024 with plenty of opportunity ahead to make real business progress.

NARRATOR: Thanks for listening. Find out how Grant Thornton goes beyond expectations at gt.com.



"Grant Thornton" refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

©2024 Grant Thornton LLP | All rights reserved | U.S. member firm of Grant Thornton International Ltd.