PREDICTIONS 2024: WHAT TO EXPECT IN THE YEAR AHEAD

Will the uncertainty continue for financial institutions?

In the coming year, banks, fintechs and credit unions will be watching the elections and working out how to incorporate AI into their businesses.

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Introduction

Coming off a tumultuous year for the banking industry, financial institutions are keeping an eye on their own books and the outside world. As they look to 2024 and beyond, banks, financial technology companies, credit unions and consulting firms are evaluating their risk after 2023 brought the second, third and fourth largest bank failures in U.S. history. Meanwhile, Washington looks to tighten its grip on oversight of the financial industry.

Leaders in the industry are split on whether the regional banking crisis is over, although they're mostly united on how they'd like the federal government to respond to it. By a wide margin, finance professionals think Republican policies would benefit them more than Democratic ones, and are hoping for Republican victories in the 2024 elections when it comes to their business. At the same time, new opportunities are presenting themselves, and leaders in the financial industry are excited about how to incorporate them – especially artificial intelligence – into their organizations.

With all this in mind, this report from American Banker — the banking-focused publication of Arizent — analyzes the ways that companies across financial sectors are planning for 2024.

Why read this report?
While we can't perfectly predict what will happen in the next year, this report offers analysis from a survey of financial services leaders, ranging from bankers to fintech innovators. Understanding the outlook of peers, competitors and colleagues can give us insights into what's next and how to prepare for it. This report interprets survey results from people across banking-related sectors and sheds light on the trends that will matter to industry professionals in 2024.

Key findings

- The regional banking turmoil might not be over, with more than half of survey respondents saying they expect another bank failure of a similar size in 2024. This number is lower, however, among midsized and regional banks, where 61% of respondents think it's unlikely that we'll see a large regional bank fail in the coming year.

- By a small margin, respondents at regional and midsized banks are less likely than respondents at smaller or larger banks to think their institution will see deposit growth in the next year. A net of 64% of respondents at midsized and regional banks expect deposits to increase, compared with 69% who say the same at large banks and 66% who say the same at community banks.

- Financial industry professionals are more likely to say Republican victories in the 2024 elections, including the presidential election, would benefit their businesses. Three in five say results that favor Republicans would help their institution, compared to 14% who say the same of election results that favor Democrats.

- Despite the conversation about deposit reform after March 2023's regional bank failures, the financial industry is skeptical that Congress will get anything done on the matter. More than half think it is either somewhat or very unlikely that Congress will pass some kind of deposit insurance reform in 2024, compared to 41% who say it is very or somewhat likely. Just under half say it will take four to six years for Congress to make any changes to the deposit insurance system.

- Bank merger policy is expected to toughen, and fewer banks anticipate either merging or acquiring another bank during the year. Just beyond a quarter of bank respondents say it's likely their institution will buy or merge with another bank in 2024. Further, nearly half say they anticipate approval from bank mergers will be more difficult to acquire in the coming year.

- Artificial intelligence is a top spending priority for many in the finance industry this year, and leaders at financial firms see an opportunity for it to be useful in customer service applications. While respondents anticipate that AI will affect how financial services workers do their jobs, they don't expect that it will replace those workers.

Research methodology

In October 2023, American Banker surveyed professionals in the banking and fintech industries to gather their insights about the top issues facing their businesses in 2024. A total of 314 leaders and staff at banks, fintechs and related sectors completed the survey.

Respondent break out

Company type

- 52% banks
    - 15% national banks with $100 billion+ assets
    - 6% regional banks with $50 to less than $100 billion assets
    - 5% midsized banks with $10 to less than $50 billion assets
    - 26% at community banks with less than $10 billion assets
- 13% credit unions
- 19% tech vendors or fintechs
- 12% other businesses
- 4% payments companies

Respondent level

- 16% president/chairman/CEO
- 12% other C-level executive
- 18% senior business executive (e.g., managing director or senior vice president)
- 12% division or department head
- 12% director/senior director
- 13% manager/senior manager
- 16% non-management

Regional banking crises

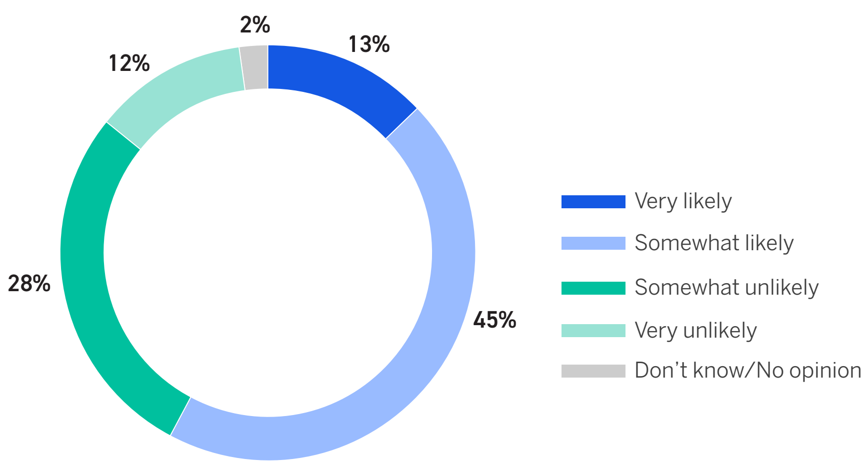
The failures of Silicon Valley Bank, Signature Bank and First Republic Bank in Spring 2023 marked the most tumultuous time in the banking industry since the 2008 financial crisis. Regulators at the Federal Reserve and Federal Deposit Insurance Corp. feared widespread contagion after the failures of Silicon Valley Bank and Signature Bank so keenly they recommended the Treasury Department declare a systemic risk exception to protect uninsured customer deposits at the two institutions.

There have been only a few small bank failures since, including Citizens Bank in Iowa and Heartland Tri-State Bank in Kansas. Those failures appear to be idiosyncratic and not reflective of a broader problem in the industry. But some regulators and industry-watchers remain concerned that some of the underlying regulatory and industry failures that caused the turmoil haven't been fully addressed.

Looking ahead to 2024, there are those in the financial industry that fear the regional bank upheaval might not be over. According to respondents, the failure of a similar large regional bank is 58% likely (13% very and 45% somewhat) (see Figure 1). Respondents who work at midsized or regional banks, however, strongly believe it's either very or somewhat unlikely (61%) that a bank of a similar size would fail, much higher than the total 40% of respondents who think a midsized or regional bank failure is unlikely.

Figure 1: Likelihood of a 2024 regional bank failure

Question: Based on what you know, how likely do you feel it is that another bank of a similar size could fail in 2024?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Base: Total respondents n=314

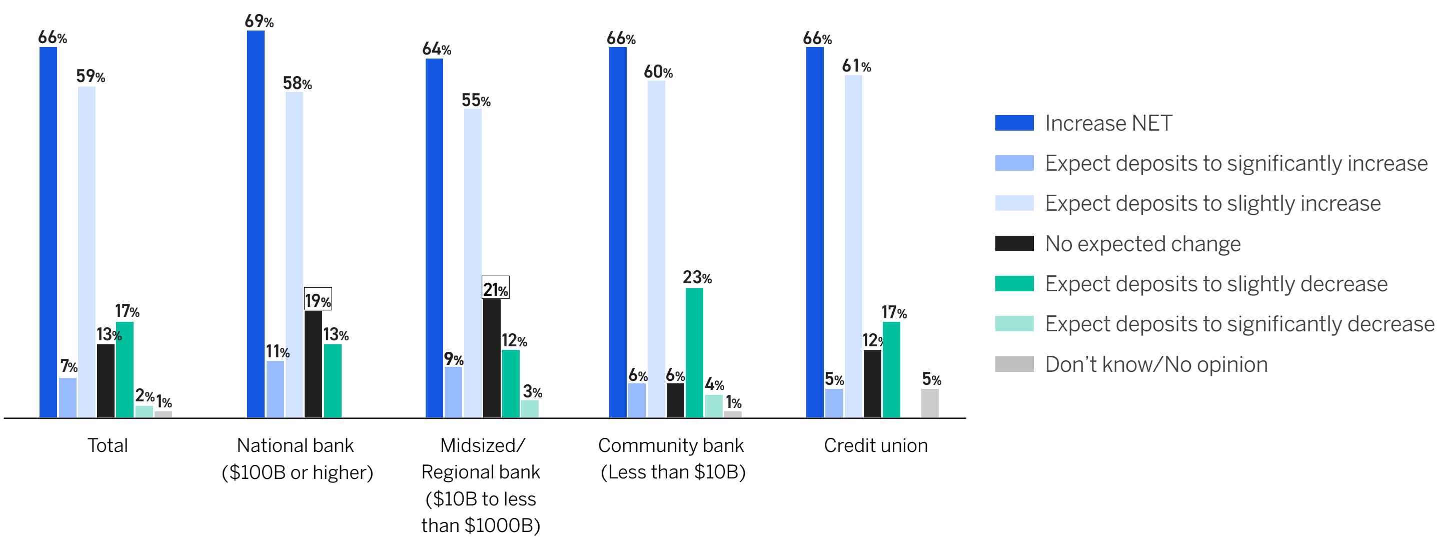
This difference might be explained by wishful thinking – it's not pleasant to think of your business doing poorly – or regional banking executives and workers seeing deposit flight waning at these types of institutions. Unfortunately, many expect the rocky ride for these organizations to continue: 58% of all respondents say regional bank turmoil will continue into next year versus 40% who say that the crisis is finished. In what may be another sign of optimistic thinking, 64% of midsized or regional bank respondents say it's finished compared to 44% at national banks and 27% at community banks.

The future of deposits is also in question. Deposits fled from midsized, regional banks as Silicon Valley Bank, Signature and First Republic failed. The fear, at the time, was of widespread regional bank failures and uncertainty as to whether government regulators would guarantee uninsured deposits held at those banks. Largely, those deposits leaving regionals bled into larger banks, which are seen as "too big to fail," and therefore safer bets.

The survey data confirms this experience: 42% of midsize and regional bank respondents say their bank saw a slight or significant decrease in deposits around the time of the Silicon Valley Bank and Signature Bank failures. Compare this to 29% from large and 30% from community banks who say the same. While these midsize and regional bank respondents expect deposits to return in 2024 – 64% expect deposits to increase at their institutions – a larger percentage of those at national and community banks say the same about their organizations (69% and 66%, respectively) (see Figure 2).

Figure 2: 2024 deposit expectations by type of institutions

Question: Looking ahead to 2024, what are your expectations when it comes to the deposits at your institution?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead

Square %s indicate significant difference between 1 or more groups

Base: Bank respondents n=207. National bank ($100B or higher) n=48; Midsized/Regional bank ($10B to less than $100B) n=33; Community bank (less than $10B) n=83; Credit union n=41

Politics and policy

Presidential election

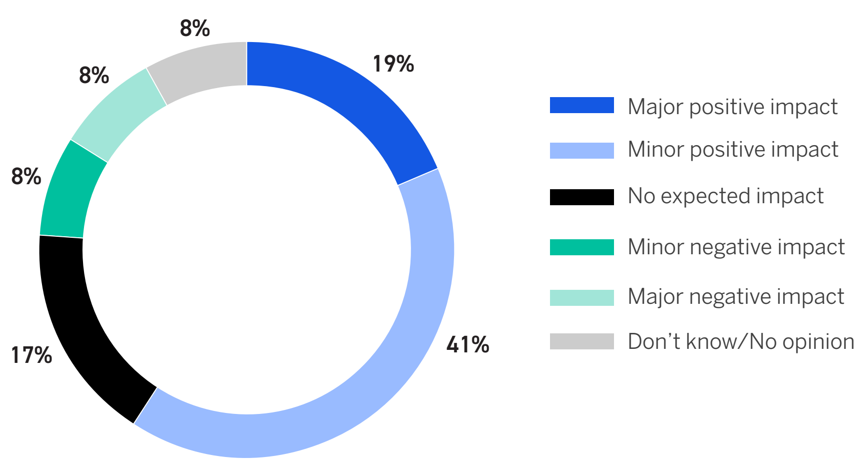
The results of the 2024 presidential and surrounding elections for Congress and local offices could have a major impact on policies affecting banks and the financial industry. While financial policy isn't expected to be the campaign issue this time, it certainly was in the wake of the 2008 financial crisis. That being said, it will still be a campaign topic and groups are spending ad money on issues like Basel III endgame rules. At the same time President Joe Biden has made a large public push on cutting down on so-called junk fees.

Republicans in Congress have made it clear that they would like to challenge Federal Reserve's Basel III endgame proposal, undercut the Consumer Financial Protection Bureau's funding mechanism and appoint regulators that wouldn't toughen oversight regimes on banks. Democratic lawmakers, should elections favor their party, would like to reform deposit insurance and pass legislation that would make it easier to claw back the compensation of failed bank executives.

Winners and losers

Bankers and other finance professionals anticipate that Republican victories would be beneficial to their businesses. Fully 60% of respondents say favorable election results for Republicans would have a positive impact on their business, including 19% who say this would have a "major" positive impact and 41% who feel it would have a "minor" positive impact (see Figure 3a). Just 16% say Republican victories would have a negative impact.

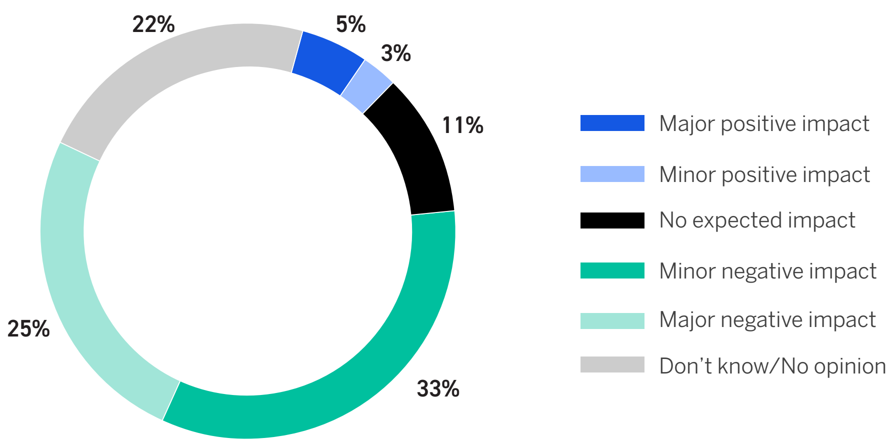
Figure 3a: Impact to business from 2024 election results that favor Republicans
Question: Should election results favor the **Republican party** in 2024, including the presidential election, to what degree would you expect that to impact your business?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Base: Total Respondents n=314

A relatively small number, 14%, of finance professionals think election results favoring Democratic candidates would have a positive impact, compared to 47% who think this would have a negative impact (see Figure 3b). But for their part some respondents think that there won't be any impact regardless of who wins: 33% say Democratic victories would have no expected impact and 17% say the same about election results that skew Republican.

Figure 3b: Impact to business from 2024 election results that favor Democrats
Question: Should election results favor the **Democratic party** in 2024, including the presidential election, to what degree would you expect that to impact your business?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Base: Total Respondents n=314

Capital rules

Regulators had a busy 2023, and almost no rulemakings dominated banking headlines more than the Basel III proposal, which would raise capital standards for some banks, particularly large ones. Republicans and banking trade groups have lobbied hard against the Basel III endgame proposal – largely seen to be spearheaded by Fed Vice Chair for Supervision Michael Barr – because of the additional capital requirements the proposal would impose. The groups take issue, in particular, with what they describe as a lack of a transparent process and missing economic analysis that the Fed may have performed on the impact of the rule. Because of this pushback, the Fed could revisit the rulemaking or make changes to try and satisfy the industry.

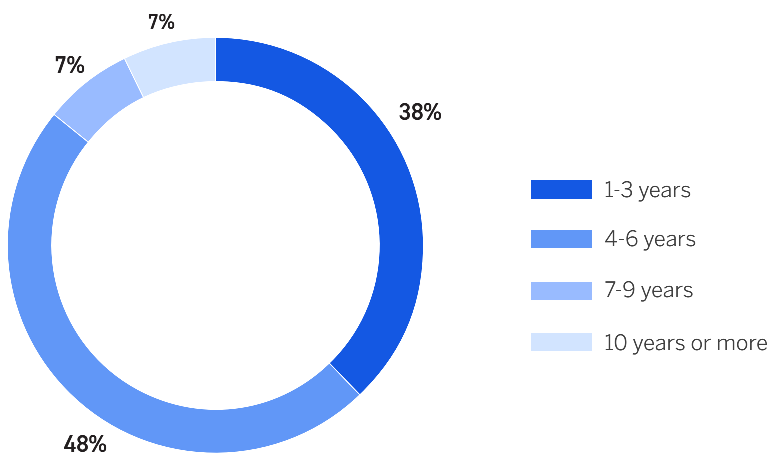
In their survey responses, financial institution employees also appear concerned about the capital rules as they were originally proposed. More than half, 56%, say that the Basel III endgame proposal would have a negative impact on the banking industry.

Deposit reform

That said, those in the financial industry don't seem to be holding out much hope for progress on some of Congress' biggest banking issues — even those that came to the forefront of discussions following bank failures in March 2023. A majority of respondents, 54%, think it is either somewhat or very unlikely that Congress will pass some kind of deposit insurance reform in 2024; by comparison 41% say it is very or somewhat likely. Nearly half, 48%, say that it will take four to six years for Congress to make any changes to the deposit insurance system (see Figure 4).

Figure 4: Time until Congress makes changes to the deposit insurance system

Question: How long do you expect it will take for Congress to make any changes to the deposit insurance system?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Base: Total respondents n=314

Bank mergers

Financial industry professionals expect bank merger policy to become more stringent, throwing up obstacles for financial services businesses to consolidate. The Biden administration has made consolidation in industries a focus of its regulators and the Department of Justice, which would trickle into the banking industry should the same crop of regulators remain through 2024.

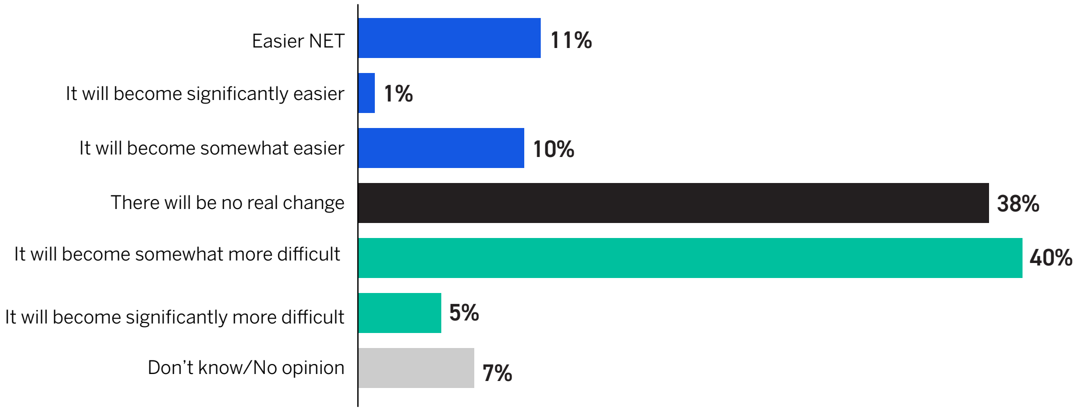
Regulators have already impacted merger activity in the industry. In May, for example, Canada's Toronto-Dominion Bank called off its $13.4 billion takeover of First Horizon after failing to get approval from regulators more than a year after the deal was announced. Only 86 bank deals have been announced in 2023 as of Oct. 31, year-to-date, according to S&P Global Market Intelligence data. That's compared to 135 deals announced over the same period in 2022. The aggregate deal value totaled $3.81 billion for 2023, compared to $7.30 billion for the same period last year.

This is bearing out in the survey numbers: Only 26% of bank professionals surveyed say it's very or somewhat likely that their institution will buy or merge with another bank in 2024. A much larger share, 67%, say it's very or somewhat unlikely that their bank will buy or merge with another bank. This is largely driven by those who work at smaller banks, those with less than $1 billion in assets.

Nearly half of all respondents, 45%, say they anticipate that approval from bank regulators to merge or acquire another bank will become more difficult in 2024 (see Figure 5). Only 11% think it will be easier to gain approval from regulators.

Figure 5: 2024 expected changes to difficulty winning approval from bank regulators for M&A activity

Question: How do you expect the difficulty of winning approval from bank regulators for M&A activity to change in 2024?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Base: Total respondents n=314

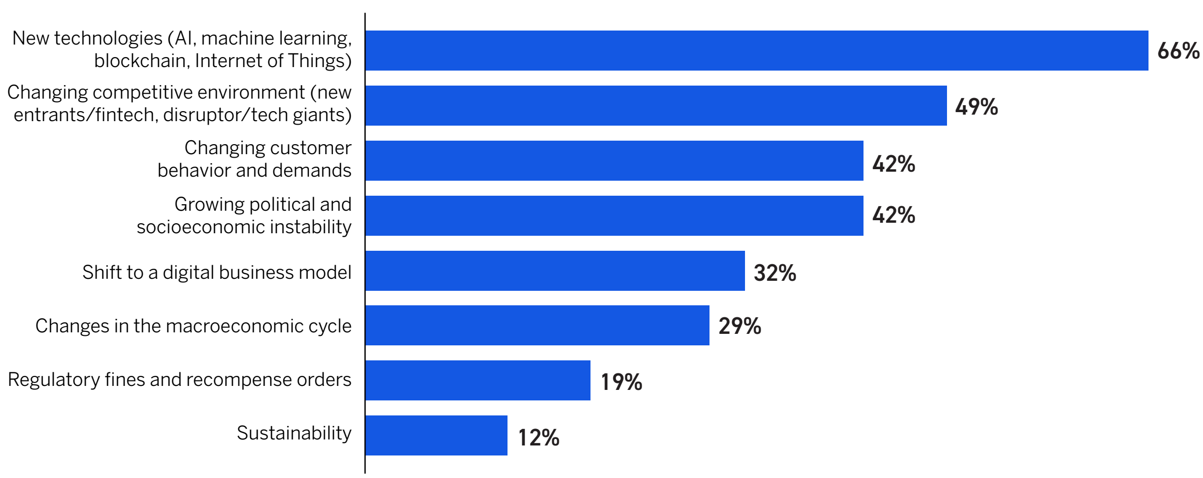
Technology

A top trend and priority

Most financial services professionals (66%) anticipate that new technologies, such as artificial intelligence, machine learning and blockchain, will be a top trend in the next one to three years (see Figure 6). This is an increase over last year's survey, when 46% said it would be a top trend. Another top trend expected by half of respondents is a changing competitive environment related to new fintech entrants into the financial industry, as well as disruption for tech giants. This is especially true of credit unions, with 73% of these professionals saying fintechs entering the industry will be a top concern.

Figure 6: Top three trends impacting banks, next 1-3 years

Question: What do you see as the top three trends impacting banks over the next 1-3 years?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Base: Total respondents n=314

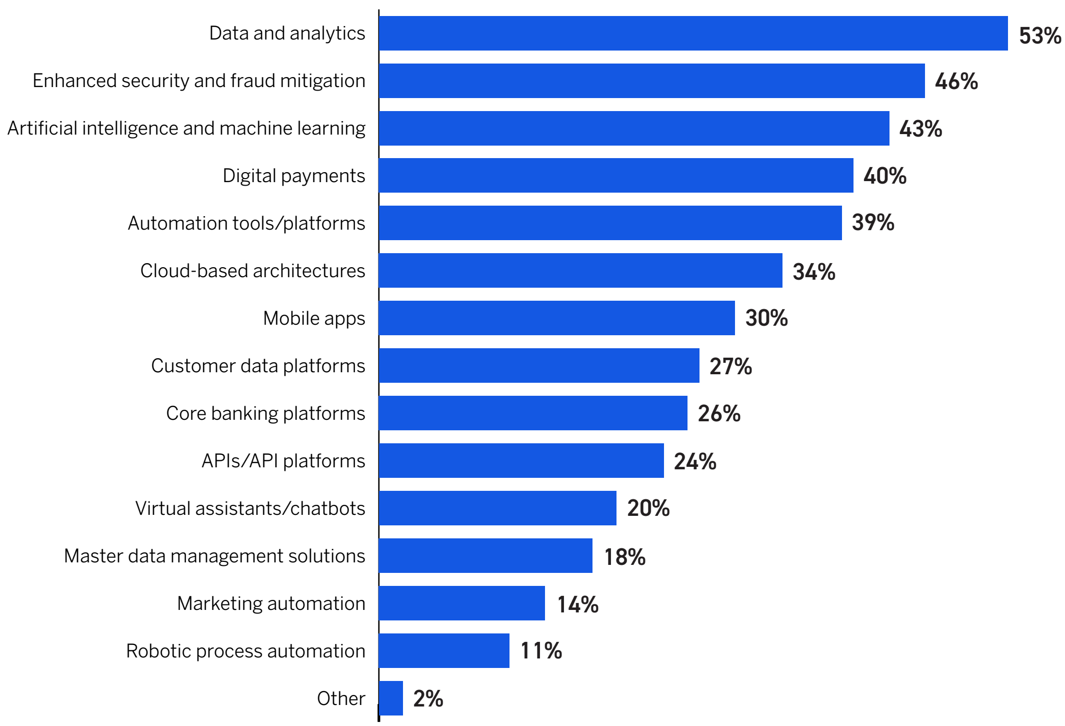
An additional area of concern is growing political and socioeconomic instability: 42% of respondents cite this as a top trend in 2024 compared to 32% who said the same last year. On the flip side, concern about changing consumer behavior and demands is fading, with 42% of respondents listing this as a top trend, a slight drop from 51% in 2022.

Spending

Most financial institutions anticipate an increase in their tech spending in 2024. Around a third say it will increase by 10% to 19%, while only 9% say that it will increase by more than that. The greatest share of respondents, 35%, expect spending on tech to increase modestly, by about 1% to 9%. Most, 53%, list data and analytics as their organization's top spending priority for 2024 (see Figure 7). Other areas that rank high include enhanced security and fraud mitigation and artificial intelligence and machine learning. Plans for tech spending on AI actually increased dramatically (24% to 43%) from the year prior, a trend driven by large national banks, 63%, and payments and tech companies, 65%.

Figure 7: 2024 top technology spending priorities

Question: Which technologies will be among your organization's top 5 spending priorities for 2024?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Base: Total respondents n=314

Artificial intelligence

Striking new artificial intelligence technology programs like ChatGPT went mainstream this last year, and interest among bankers is higher than ever. Generative AI, in particular, could be used in banking, specifically programs such as OpenAI's ChatGPT or Google's Bard, to increase internal productivity and enhance customer experience. In what is not a surprise, national banks are leading the way in this area and committing their larger tech budgets to the cause.

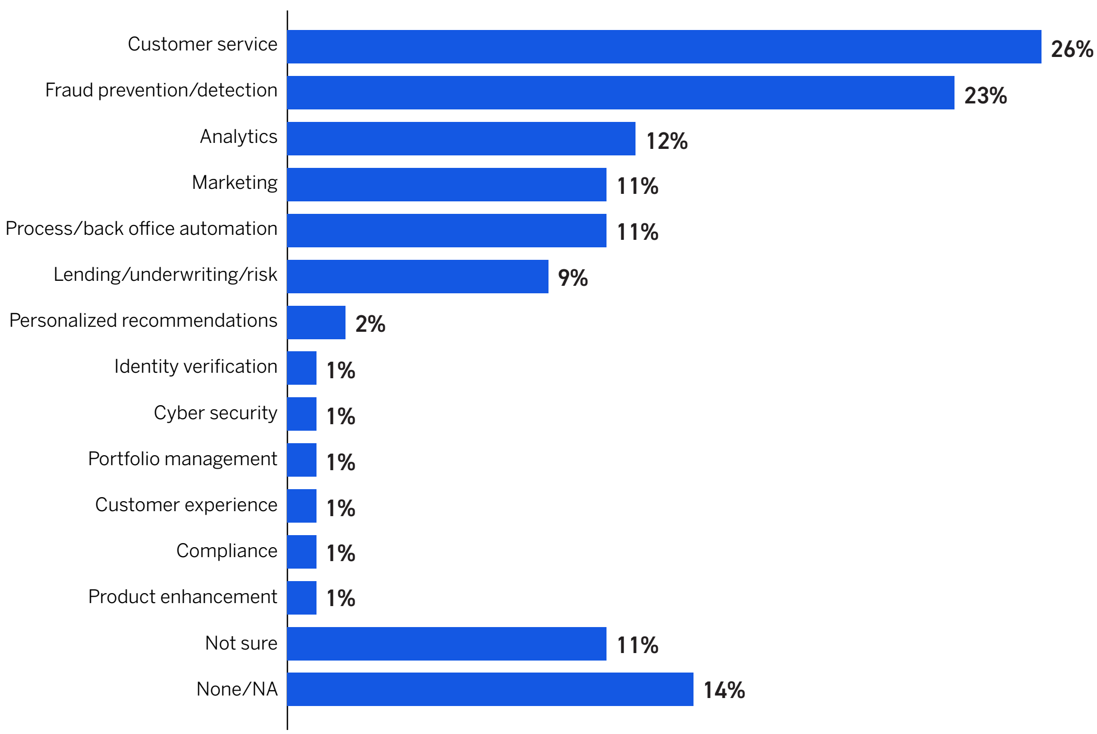
While most banks are still researching the technology, major banks like JPMorgan Chase, Wells Fargo and Goldman Sachs are already rolling out some AI-powered programs. JPMorgan Chase is using large language models to detect fraud by looking at patterns in emails. Goldman Sachs is using generative AI to help software engineers in code development. And Ally Bank has an AI-powered program that transcribes and summarizes customer service calls.

As interest in AI grows, financial service industry professionals are rapidly figuring out where and how to use it. According to 26% of respondents, customer service is the top use case/strategic business initiative for AI, mostly for customer support functions (see Figure 8). Other key uses include fraud prevention and detection, analytics and marketing. In what is a somewhat surprising finding, 14% of respondents say they see no use cases for AI or that it is not applicable. It will be interesting to see how this number changes as the technology continues to evolve.

While many organizations may be interested in implementing AI, they can face obstacles with execution. A shortage of data science talent, for example, is the primary barrier (39%) to AI adoption to help address and mitigate fraud and money laundering. Another obstacle for this use case is time to implementation (35%).

Figure 8: 2024 use cases/strategic business initiatives that would benefit most from AI adoption

Question: What use cases or strategic business initiatives do you think would benefit most from the adoption of AI or generative AI at your organization in the year ahead?

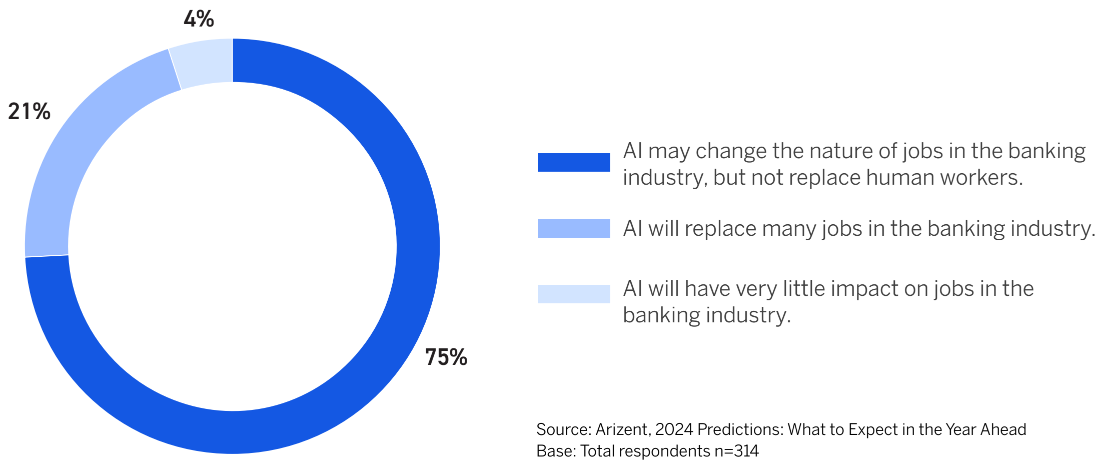


Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Base: Total respondents n=314

It would be difficult to talk about AI without mentioning its potential impact on job functions and prospects. As of this survey, 75% of finance industry professionals think AI will change the nature of some jobs, but won't replace human workers (see Figure 9). A much smaller number say AI will replace jobs in the banking industry, while just a few say it will have little impact on these jobs.

Figure 9: Views on the impact of AI on banking industry jobs

Question: Which of the following best describes your view, even if none are entirely aligned with your opinion?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Base: Total respondents n=314

Changing behavior

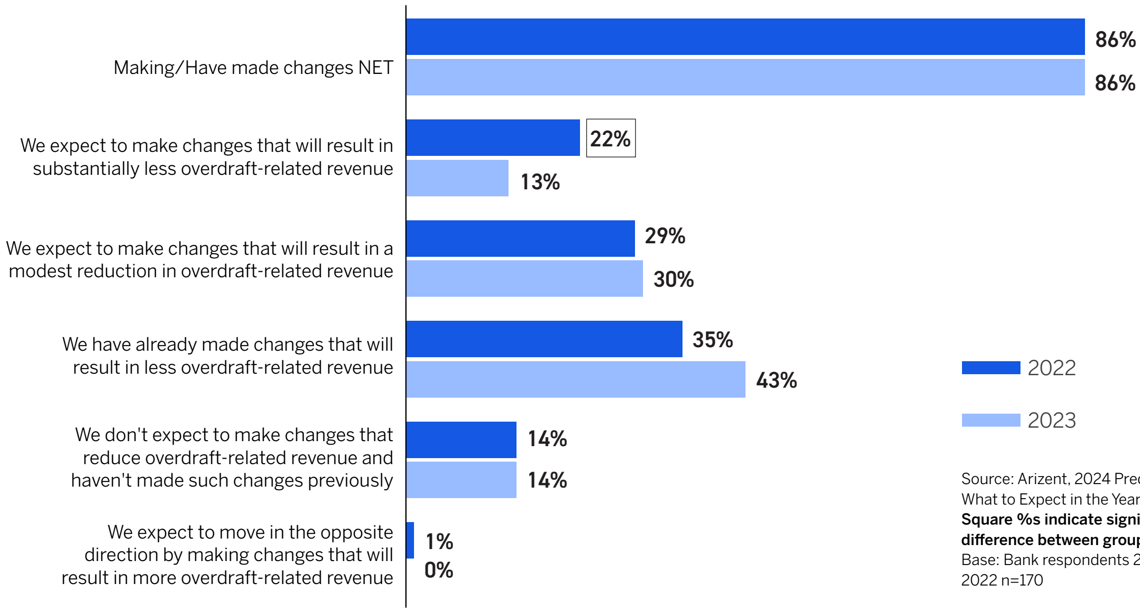
Overdraft

While many banks read the tea leaves in Washington when it comes to overdraft fees, for the most part banks that were going to make changes to their overdraft policies largely seem to have made those decisions. The Consumer Financial Protection Bureau, and other regulators within the Biden administration, have made it clear that excessive overdraft fees are a target of the administration's campaign against "junk fees." Lawmakers, including Sen. Elizabeth Warren, D-Mass., have asked banks to change their policies and bring in fewer dollars via overdraft revenue. Over the past couple of years, many banks have reduced or eliminated those fees, including Ally Bank, Capital One, Citi and Truist.

But the rate at which banks are expected to make announcements regarding their overdraft fees may be ebbing. Compared to 2022 data, a significantly smaller number of respondents anticipate changing their policies in relation to their overdraft fees. Only 13% of bank respondents in this year's study expect their bank to make changes that would result in substantially less overdraft-related revenue versus 22% last year. A much larger group, 43%, say they have already made changes that would result in a moderate reduction in overdraft-related revenue, compared to 35% who said the same in 2022 (see Figure 10).

Figure 10: 2024 bank/credit union plans for overdraft-related revenue

Question: Many large banks have made reforms to their overdraft programs that have resulted in less overdraft-related revenue. What are your institution's plans for 2024?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead
Square %s indicate significant difference between groups
Base: Bank respondents 2023 n=207. 2022 n=170

Bank branches

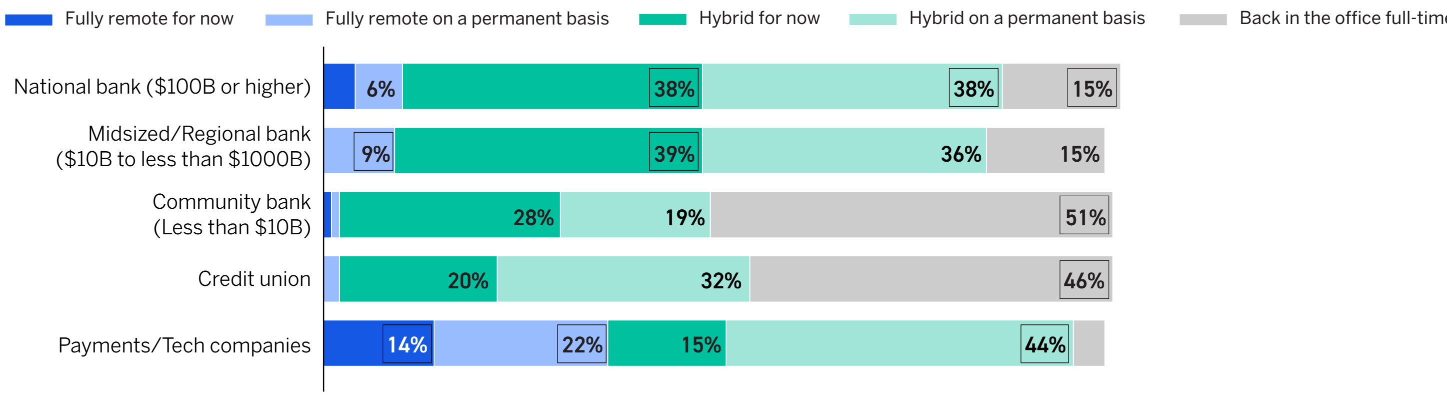
While many banks are closing branches and consolidating due to an increase in online banking, that trend could slow in 2024. The number of respondents who expect their bank to add branches increased to 35% this year compared to 28% the year prior. Those who think their bank's number of branches would stay the same also increased from 39% to 45%. Community bank respondents are the most likely to say the number of bank branches would remain stable at 59%.

Return to office

As social isolation continues to wind down post-pandemic, more and more offices are requiring their employees to return to physical offices, and the financial industry is no exception. In last year's study 16% of respondents anticipated a full-time return to office; this year that number increased to 26%. In the hybrid category, there is a 10% decrease year over year, no doubt in part to the full-time office trends. The percentages for fully remote remained consistent year over year. The organizations leading the charge on in-office work are community banks and credit unions: 51% of community bank and 46% of credit union respondents expect their workforce to be full-time in the office in 2024 (see Figure 11). Meanwhile only 15% of national and midsized bank professionals say the same.

Figure 11: 2024 location plans for workforce by type of company

Question: What are your plans for the location of your workforce in 2024?



Source: Arizent, 2024 Predictions: What to Expect in the Year Ahead

Labels for values less than 3% are not shown; Square %s indicate significant difference between 1 or more groups

Base: National bank ($100B or higher) n=48; Midsized/Regional bank ($10B to less than $100B); n=33; Community bank (less than $10B) n=83; Credit union n=41; Payments/Tech companies n=72

Conclusions

- With generative AI going mainstream, the financial industry is enthusiastic about figuring out how to incorporate it into businesses, especially for customer service uses. While leaders in the financial industry don't believe it'll replace many jobs, AI is still expected to cause disruption to their workforces, all at a time when employees are grappling with a back-to-office transition. If leaders in the financial industry aren't thoughtful about how they manage those two threads, workplace morale could begin to drop and financial institutions could find themselves on the wrong end of a struggle for talent.

- The regional banking crisis might have slowed, but many don't think it's entirely over. While midsized and regional banks are less likely to believe we'll have another bank failure of a similar magnitude to the ones that occurred in March 2023, a hefty share of respondents from those institutions still fear a continuation of the turmoil. A key element to watch here will be confidence in the stickiness and growth of deposits which, in the category of banks that are definitely not too big to fail, appears high.

- When it comes to their businesses at least, financial industry professionals are hoping for Republican wins during the 2024 elections. As for why, bankers and leaders in related industries believe that Democratic-led policies, such as the Basel III capital rules, are going to negatively impact their businesses. Bankers are also pessimistic about the chances of loosening M&A policy anytime soon and skeptical that deposit reform will become reality anytime in the immediate future.

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