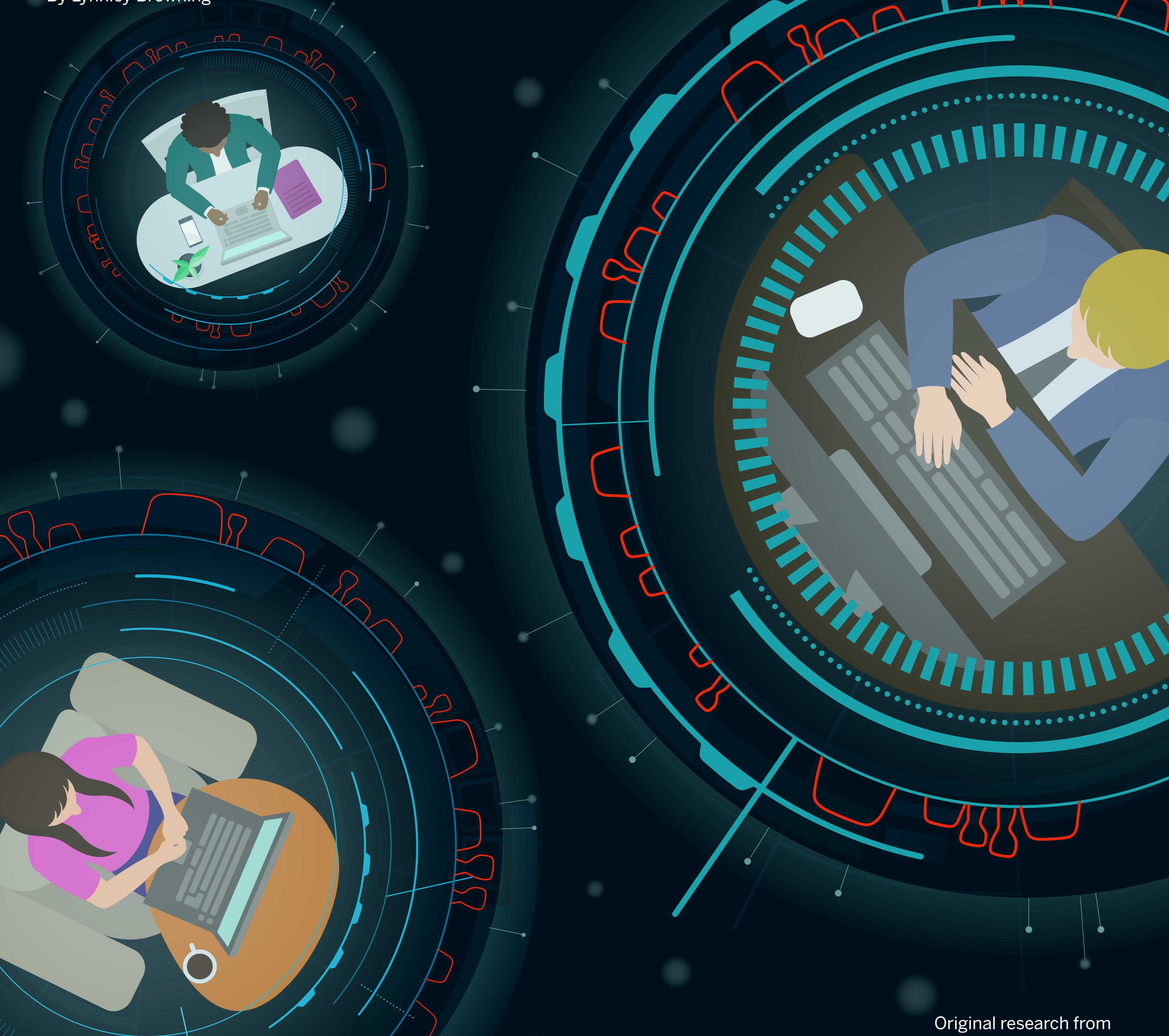
2022 PREDICTIONS: WHAT TO EXPECT IN THE YEAR AHEAD

Flexibility, fear and fortitude: Finance faces the future

The second year of the pandemic unleashed unprecedented exogenous challenges for financial companies heading into 2022. What core trends will shape the industry moving forward?

By Lynnley Browning



Original research from

AMERICAN BANKER National Mortgage News Digital Insurance Financial Planning THE BOND BUYER

Flexibility, fear and fortitude: Finance faces the future

Introduction

As COVID-19 forces companies, investors and policymakers to redefine a new normal for a second straight year, it's creating insights and opportunities out of crisis and disruption. The past year surfaced new business models that suggest how adaptability and flexibility can underpin the way forward on multiple fronts. What's new and powerful is the benefit of more than 12 months of data and qualitative learning on how two seemingly diametrically opposed forces — resilience and agility — can work together.

This study from Arizent — parent company of American Banker, The Bond Buyer, Digital Insurance, Financial Planning and National Mortgage News — explores what financial companies see coming in 2022 from the economy, regulation, technology, innovation, competitors and consumer behavior.

Key findings include

- Optimism about whether the pandemic economy will recover next year or wait until 2023 varies by industry. Financial advisors are the most sanguine about timing, with more than half predicting a full pick up before the end of Q2 2022. Six in ten insurers and mortgage companies see a back-to-normal by July 2022 or later. But only one-third of all banks predict a full recovery in the second half of next year. Nearly half, or 44%, see recovery only in 2023.

- Concerns about rising inflation are significant across all financial industries. Roughly one in two companies is either worried or very worried about the impact of rising prices on their customers. These surveys were conducted in early October, when the most recent annual rate was 5.4%. Since then, consumer prices spiked to 6.2% in October, the largest increase in three decades.

- Deal making is predicted to thrive. One in four financial institutions expects to buy or be acquired by a competitor next year, as the pandemic fuels consolidation with smaller players and rivals. Regional banks are the most likely to do a deal in 2022.

- Corporate America's scattershot approach to using digital technology to transform strategy, operations, products and services is incorporating a human (esque) component. Eight in ten financial advisors say they're in the process of incorporating AI technology into

Why read this report?
As current and past crises have taught us, predicting the future is not easy but anticipating trends is critical to building a resilient business. In this report, we tap into the collective wisdom of U.S. business leaders from financial companies to predict what trends they think will be shaping their industry and informing their business strategies for 2023 and beyond.

their practices. Insurers say they're blending digital approaches with more interfacing with people. More than eight in ten banks and nearly as many mortgage companies expect their tech spending next year to increase moderately or significantly.

- Everybody is worried about competition from Big Tech, as Amazon, Google and other giants increasingly muscle into payments, lending, banking and insurance.

- Environmental, social and governance (ESG) issues, both for investors and financial companies, occupy increasing mindshare.

About this report

This report combines data from research conducted by five Arizent brands during October 2021.

Data from American Banker comes from 175 qualified leaders and staff at banks and fintechs of varying sizes who completed the online survey. The majority of respondents, or 48%, are C-suite and senior business unit executives. Some 42% are division and department heads, senior directors and directors, and senior managers and managers. One in ten is in a non-management role. One in five, or 21%, works at a global or national bank. The same percentage work at community banks. Nearly as many, or 19%, work at regional banks. Some 16% work at credit unions and nearly one in four work at a fintech firm.

Data from The Bond Buyer comes from 137 qualified issuers, analysts, asset managers and others involved in the municipal finance industry. Nearly four in ten, or 38%, are C-suite and senior business unit executives. One in three is a division or department head, senior director or director, or senior manager or manager. Nearly three in ten are in non-management roles. Issuers were one in five respondents (20%), followed by analysts (15%), institutional or retail asset management (12%), sales, trading and underwriting (10%), investment banking (9%), bond or tax legal counsel (8%) and municipal advisors (5%). One in five identified as working for insurers, ratings agencies or the government.

Data from Digital Insurance comes from 97 qualified employees at insurers, agencies, brokers and insurtech firms across P&C, life, health, multi-line, reinsurance and commercial. Nearly two in five are C-suite and senior business unit executives. Nearly four in ten are division and department heads, senior directors and directors, and senior managers and managers. One in four is in a non-management role. One in three works at an agency, brokerage, managing general agent or managing general underwriter. Nearly one in four, or 23%, works at an insurance technology vendor. Some 41% work at carriers.

Data from Financial Planning comes from 153 qualified wirehouse employees, broker-dealers, advisors and RIAs who responded to the online survey. One in two are C-suite and senior business unit executives. One in four is a division or department head, senior director or director, or senior manager or manager. Just over one in four is in a non-management role. Nearly four in ten, or 37%, are fee-only advisors. More than four in ten, or 43%, work at a hybrid independent broker-dealer/registered investment advisory (RIA) firm. One in ten is a wirehouse advisor and another one in ten identified as working for another broker/dealer or investment program advisor.

Data from National Mortgage News comes from 98 qualified employees at banks, non-bank mortgage lenders, brokers and mortgage insurers who responded to the online survey. Nearly half, or 45%, are C-suite and senior business unit executives. One-third or 33% are division and department heads, senior directors and directors, and senior managers and managers. One-quarter are in non-management roles. Most respondents, or four in ten, work at banks or credit unions. One in three works at a nonbank lender or servicer. 15% are mortgage brokers. The rest work at mortgage and title insurers, government-related entities and mortgage technology firms.

The economy conundrum

When will things be completely normal?

As people and businesses strain to recover from the effects of the COVID-19 pandemic that began in early 2020 and metamorphosed this year into the more infectious Delta variant and, as of the end of November, into the new Omicron variant, the economy is facing stark new challenges. The evolving pandemic is the dominant issue confronting businesses as they head into the next year.

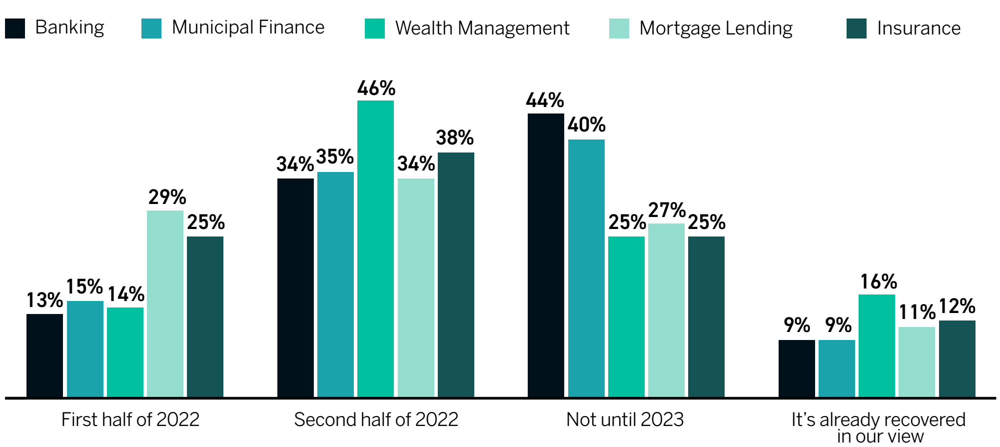
The economy seemed to turn a corner last spring, after a nationwide vaccination effort and pandemic relief loans laid the groundwork for most businesses to reopen after idling for roughly a year. Consumers, flush with government assistance checks, unleashed pent-up demand. Wages increased, but new obstacles have emerged. Supply chain bottlenecks, caused by companies ramping up, stalled production and shipping, and labor shortages, fueled by workers quitting their jobs in droves, have intensified to spike prices on everything from groceries and furniture to appliances and cars.

For financial companies trying to gauge how much money to pour into their businesses and whether consumers will have the financial wherewithal to buy their products and services, it's an odd and unsettling scenario, especially with the S&P 500 up around 25% as of mid-November. A significant slice of financial America doesn't see a complete economic recovery until 2023, with expectations changing based on where respondents sit within the financial services ecosystem.

Banks
and muni market leaders are most likely to not see a complete economic recovery until 2023.

In setting strategic plans, when does your organization assume the economy will fully recover from the pandemic recession?

Base: (Banking) 175 (Municipal Finance) 137 (Wealth Management) 153 (Mortgage Lending) 98 (Insurance) 97



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

For example, more than three-quarters of banks and financial technology companies, or 78%, are setting strategic plans that don't expect full economic recovery until the second half of 2022 or later. "Or later" are the operative words.

Only one in three banks, or 34%, sees recovery sometime during the second half of next year. Meanwhile, nearly half, or 44%, say a pickup will happen only in 2023. Just 13% see a full turnaround within the first six months of next year. Only a tiny sliver, or 9%, consider the economy to have already recovered.

Optimism, or pessimism, varies according to a bank's size. The surveys show surprising similarities between big banks and much smaller community institutions. Some 38% of global and national banks and 39% of community banks don't see a full recovery until 2023, a more optimistic view compared to regional banks (45%) and credit unions (62%), which are more broadly expecting recovery to wait until 2023.

Perhaps due to the red-hot real estate market, mortgage companies are more sanguine about economic recovery than banks. Home prices in many cities have risen by double digits since roughly October 2020 due to a combination of housing shortages, low mortgage rates, a flood of money from professional investors and the shift to work-from-home. Still, some startling differences of outlook emerge within that industry. Six in ten mortgage companies of all stripes are planning on a full economic recovery coming in July 2022 or later, with one-third (34%) predicting recovery within the second half of next year vs. 29% in the first half of 2022. A little over one in four, or 27%, see a complete turnaround only in 2023. Mortgage insurance and title insurance companies are the most rosy-eyed, with 75% pegging a full recovery during the first six months of 2022. That's almost three times the rate predicted by mortgage brokers (27%). Overall, half the industry expects that intense consumer demand for housing will further increase home prices in 2022.

In the muni market, asset managers who trade bonds are more optimistic than bond issuers. Amid historically low interest rates, bond prices have remained high and yields low. Nearly half of asset managers see full recovery of the economy in place by the end of 2022, but one in three sees a turnaround completed in the second half of next year. Just over one in five bond asset managers says that things won't have turned around until 2023. Meanwhile, more than half of issuers, or 56%, don't see recovery happening until 2023.

Among the biggest optimists are financial advisors and their employers. More than half of advisors work at firms that think full recovery will be achieved by the end of 2022. Only 25% work at firms that are eyeing 2023 for a full pickup.

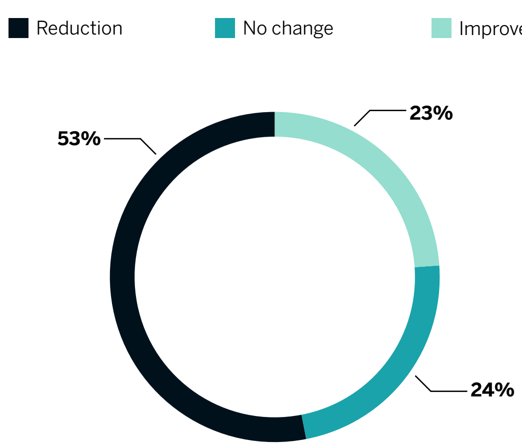
The inflation spoiler

Many economists had predicted that the inflation which emerged last March would be transitory as the economy began re-opening. But in October, prices for consumer goods rose 6.2% compared to levels a year ago, the highest in 31 years. Economists aren't quite yet sure what to make of the unprecedented situation. The result is that financial services executives are rattled.

Half of mortgage professionals surveyed expect to see a reduction in business due to higher inflation in 2022. When the Federal Reserve deems inflation too high, it typically raises interest rates to slow the economy and bring inflation down. A hike, which more than eight in ten mortgage professionals think will happen next year, would make borrowing more costly for homebuyers and keep many away.

How do you expect higher inflation to impact your business in 2022?

(Base: 98 mortgage industry respondents)



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

When inflation is high, consumers are incentivized to keep less cash in their bank accounts with low interest rates because the uptick in prices for goods and services erodes that cash's purchasing power. Retail banks rely on cash deposits to fuel lending.

Under inflationary conditions, banks usually pay higher interest rates on consumer savings accounts. Banks can also earn bigger fees as consumers increase their use of credit cards. And commercial lending can increase as business clients find they need more cash to operate in a higher-priced environment. But a sustained inflationary spike can also prompt existing borrowers to default on their commercial loans, causing bank losses.

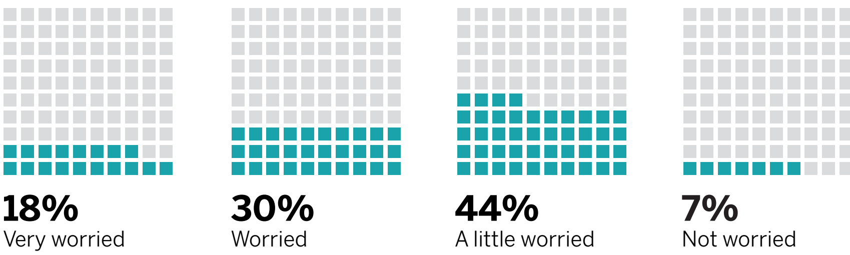
For many financial services executives, concerns about inflation have them worried about the impact on their business and its customers.

It's a delicate tightrope. And one that bankers and advisors are concerned about.

Among banks of all sizes, nearly one in two, or 48%, reported being "worried" or "very worried" about the impact of rising consumer goods prices on their customers. The "worried" camp (30%) topped the "very worried" camp (18%) by a large margin. Only 7% of all financial institutions aren't worried at all.

How worried are you about inflation and its impact on your customers in 2022?

(base: 175 banking respondents)

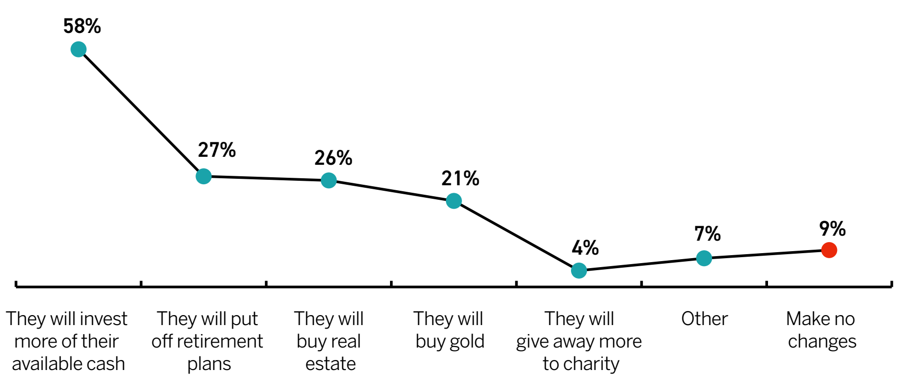


Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

Nearly six in ten financial advisors expect that their clients will invest more of their cash due to inflation, which erodes the value of cash over time.

How do you expect inflation will affect your clients this year?

(base: 153 wealth management respondents)



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

Participants in the muni market are also concerned about the impact of inflation. In fact, six in ten senior bond market players see challenges arising from higher interest rates in the next year. In early November, the Federal Reserve began reducing its asset purchase program, through which it buys bonds; it expects to zero out those buys by June 2022, at which point it has indicated it may raise interest rates.

Policy and regulation

Tax changes

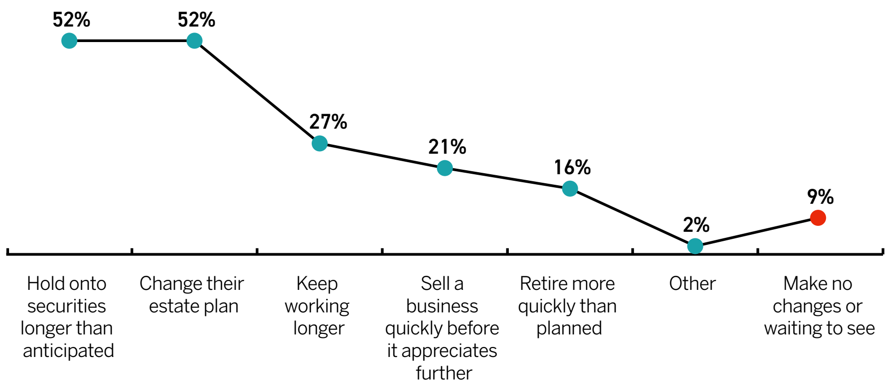
As of the writing of this report, the House of Representatives had passed the Build Back Better Act, a scaled-back but still ambitious series of tax increases on companies and individuals to finance the Biden administration's social spending agenda. The bill now goes to the Senate, where it will likely face significant alterations. With tax increases in the air ever since President Joe Biden took office in January 2021, finance executives have factored the impact of potential tax hikes into client portfolios.

Over half of financial advisors, or 52%, expect their clients to hold onto securities longer and/or change their estate plan in response to potential tax increases. A little over one in four thinks clients will postpone retirement and work longer. One in five thinks clients who own a business will accelerate a sale.

Half of financial advisors expect clients to hold onto securities longer or revise estate plans in response to tax changes.

How do you anticipate your clients will deal with the proposed Biden tax hike?

(base: 153 wealth management respondents)



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

One of the oldest clichés in wealth management is "Don't let the tax tail wag the investment dog." It means, don't make investment decisions based solely on avoiding the tax bills that would materialize. For example, don't put off a needed rebalancing of a portfolio just because selling some high-growth stocks to shift cash into dividend stocks would trigger higher capital gains taxes.

But it may be time to retire the maxim.

Critically, only one in ten advisors sees their clients hewing to the tax tail/investment dog maxim by taking a wait-and-see approach to the emerging tax bill before making any changes.

Regulators are getting busy

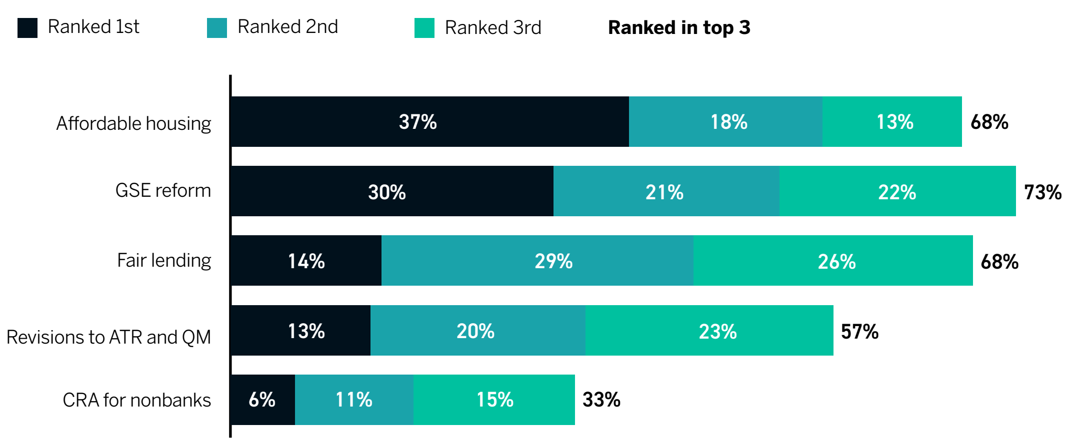
Advisors who earn commissions, aka brokers, are on notice. The majority of all advisors, or six in ten, expects SEC chairman Gary Gensler to tighten up the core rules regulating brokers.

Many advisors are dually registered as both an independent advisor representative and as a broker, all through a "hybrid" firm providing both independent planning and brokerage services. When it comes to collecting commissions on investments they recommend to their clients, they're beholden to the Regulation Best Interest standard, known as Reg BI. That benchmark of duty to a client requires an advisor to recommend investments and merely disclose conflicts of interest, not avoid them. It's a lower level of care than the fiduciary standard that governs fully independent advisors and requires them to always put a customer's best financial interests ahead of their own and avoid conflicts of interests when suggesting investment advice or products.

For nearly four in ten mortgage market players, the top legislative priority is affordable housing. Three in ten cited GSE reform of Fannie Mae, Freddie Mac and the Federal Home Loan Banks and 14% cited the strengthening of fair lending rules as government agencies, including the Justice Department, ramp up their scrutiny of discriminatory practices and "redlining."

What legislative priority in Washington is most important to you?

(base: 98 mortgage industry respondents)

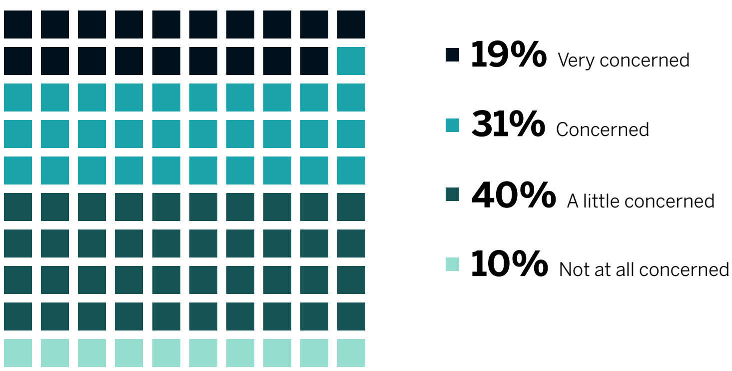


Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

Data privacy and identity theft are growing issues both for the private sector and for lawmakers. In October 2021, the Consumer Financial Protection Bureau launched an inquiry into how Amazon, Apple, Google and Facebook — all of which are expanding into consumer-facing financial services — use and protect consumer data. There's no one federal privacy law, but instead a patchwork of various rules, including the Fair Credit Reporting Act (FCRA) and the Gramm-Leach-Biley Act (the Financial Services Modernization Act of 1999), which requires financial companies to disclose how they share a consumer's data for loans and investment services, along with the right to opt out. Over the next three years, 90% of bankers are at least a little concerned that emerging privacy laws in states, including Massachusetts, North Carolina and Ohio, will impact their customer experience (CX) strategies. One in five is very concerned.

How concerned are you about Privacy Laws affecting your organization's customer experience (CX) strategies over the next 3 years?
(base: 175 banking respondents)

50% are concerned that privacy laws will impact CX strategy



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

9 out of 10
bankers are at least a little concerned privacy laws will impact customer experience strategies.

ESG, the biggest trend in investing and corporate America

Environmental, social and governance issues have exploded over the past 12 months, as funds and asset management firms pitch retail and institutional investors on sustainable investments that are supposed to be good for the environment and society. Shareholders increasingly want visibility into what they own. But there's no single definition of ESG and the label is being used in a plethora of ways. Amid a profusion of benchmarks and ranking systems, it's tough for investors to know what they're getting. Meanwhile, the prospect of mislabelling or "greenwashing" has spawned its own risk for financial institutions. So-called ESG risk refers to the dangers to its bottom line a company faces from not adopting sustainable practices. Nine in ten banks are paying attention to ESG and one in two would change parts or all of their business in response to new regulations. Two in three bond industry players would alter their business practices amid new rules and half say ESG would accelerate the public finance industry's growth. Investment bankers are more likely than bond asset managers, analysts and issuers to focus on ESG issues.

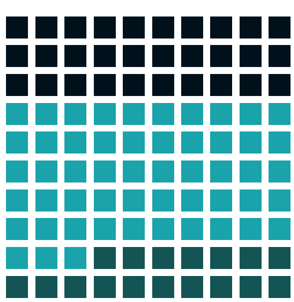
How will regulators' focus on Environment, Social and Corporate Governance (ESG) issues affect your organization's culture, management structure and business models?

(base: 175 banking respondents)

More than half of financial advisors say that ESG regulations won't come until 2023 or later. But nearly one in five, or 17%, says regulations won't ever be put forth, a dangerous assumption given SEC chair Gensler's public comments to the contrary.

Will the ESG label be regulated in terms of funds/investments marketing themselves as ESG products?

(base: 153 banking respondents)



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

Bond markets shed tears

On November 15, President Joe Biden signed the $1 trillion infrastructure bill into law, formally starting his initiative to shore up the country's crumbling infrastructure by pouring money into roads, power lines, ports, bridges, rail lines, broadband, airports and water supply systems. But the municipal finance market was largely left out, thanks to last-minute changes to the Build Back Better bill. Under the changes, Congress won't authorize new bond issues to pay for the overhaul. The bond market, which typically finances such projects, is left out of the biggest infrastructure works in decades.

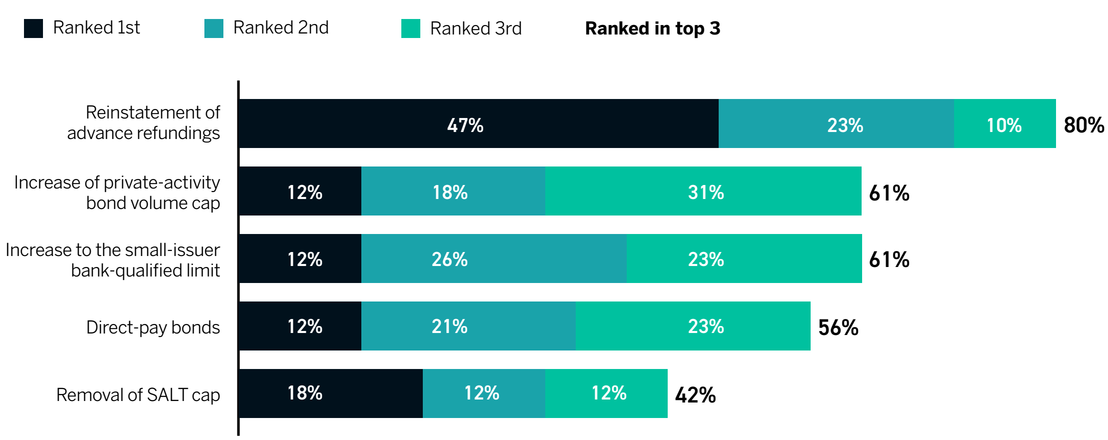
Before the law was passed, bond managers, issuers, bankers and analysts had expressed modest confidence that it would benefit them. At the time of the survey, 31% of bond managers and executives predicted that the bill would have a significant positive impact on the public finance landscape. Nearly half, or 45%, saw limited positive impact. Nearly one in four, or 24%, predicted no to negative impact. Nine in ten bond executives and managers thought that total municipal bond volume in 2022 would match or exceed recent levels, including 2020's roughly $450 billion. One in four thought it would equal or exceed $450 billion.

The bond market took another blow when the infrastructure bill didn't reinstate so-called advanced refundings, when funds received from issuing new bonds are used to pay off a prior bond's debt. Nearly half of bond market players, or 47%, said that reinvigorating advanced refundings was their top legislative priority.

Recent legislative action failed to deliver on key priorities for the bond market.

What legislative priority in Washington is most important to you?

(base: 137 muni market respondents)



Technology and innovation

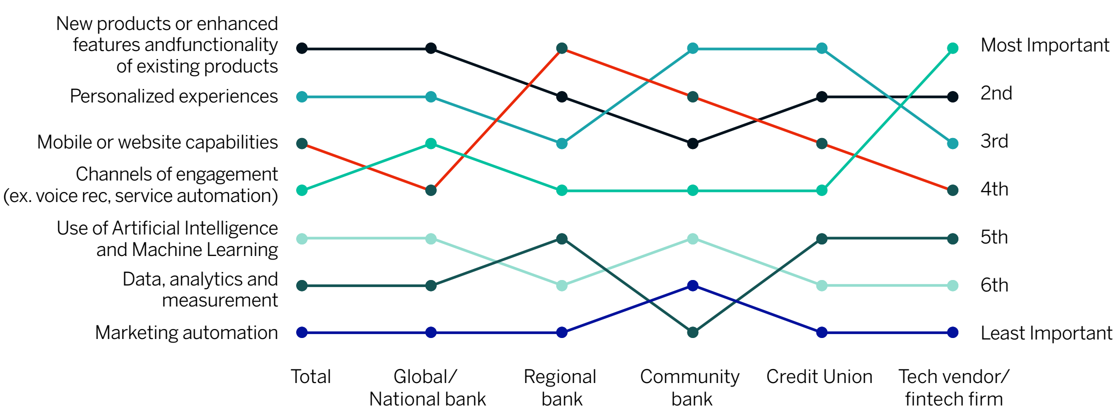
Seeking to know everything about the consumer

The ongoing digital transformation of the financial services industry has introduced two forces that aren't always in sync: concerns about data privacy protection and ease for consumers. Whether it's to bolster the functionality of existing products, personalize mobile and website capabilities or boost data mining, AI and analytics, both factors require big spending on technology. More than eight in ten banks, or 85%, expect their tech spending next year to increase moderately or significantly. Banks and fintechs of all types rank new product development or enhanced functionality for existing products as their top CX priority, followed by personalization of digital services for consumers.

While CX is top of mind for most financial institutions, individual priorities vary according to financial firms' sizes and types. Over 2022-2024, global and national banks are most interested in spending on new products or upgrading the features and functionality of existing products. Meanwhile, regional banks are most focused on upgrading their mobile and website interfaces, while community banks and credit unions are prioritizing personalized experiences. Fintech firms have a different top priority of data, analytics and measurement. Spending on voice recognition, AI and automated marketing rank as the bottom three priorities for financial firms of all stripes.

In terms of future investment in CX, where do you see your organization's focus for the next three years?

(base: 175 banking respondents)

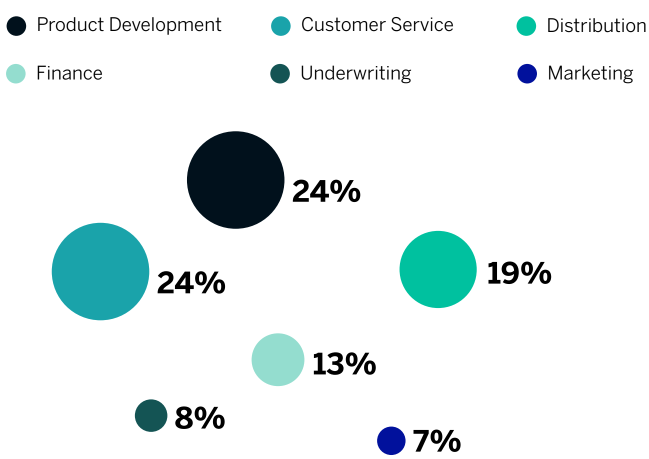


Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

It's a different punch list for financial advisors. While fewer than one in ten is actively using AI-enabled software in their practice, more than eight in ten are on the way there. Wirehouses and broker-dealers are much more likely to report using or having the groundwork for AI-enabled tools.

Among digital insurers and mortgage industry companies, three in four expect their tech spending next year to be moderately or significantly larger than in 2021. With post-COVID customers, insurers are working toward a mix of digital and human interactions. Product development and customer service, fueled by Big Data, are their top priorities. Some three in ten mortgage companies already use electronic promissory notes for mortgages rather than paper forms, with another six in ten looking into the elimination of paper.

Which of the following areas is your organization's number one priority for digital transformation in 2022?
(base: 97 insurance industry respondents)



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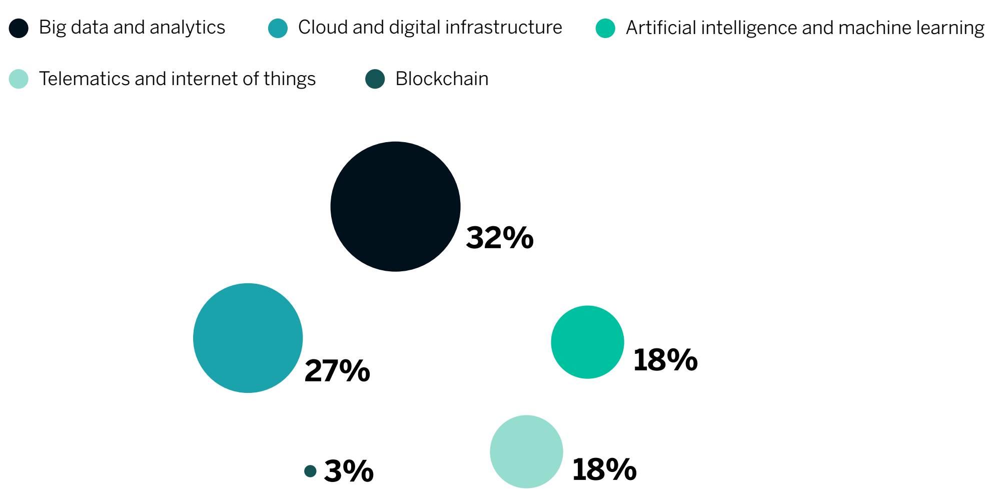
Which of the following technologies is your organization's number one priority for digital transformation in 2022?
(base: 97 insurance industry respondents)



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

Insurers
place product development and customer service at the top of their digital transformation priorities.

Big Tech

If there's one thing that scares financial services firms, it's giant technology companies. Amazon, Apple and Google are muscling into banking's traditional turf of payments, checking, lending and insurance services for retail consumers and businesses. So, it's no surprise that six in ten digital insurers worry that those forays are a competitive threat. Nearly half of all banks, or 47%, expect Big Tech to become a major competitor within three years. Regional banks, at 64%, are the most worried.

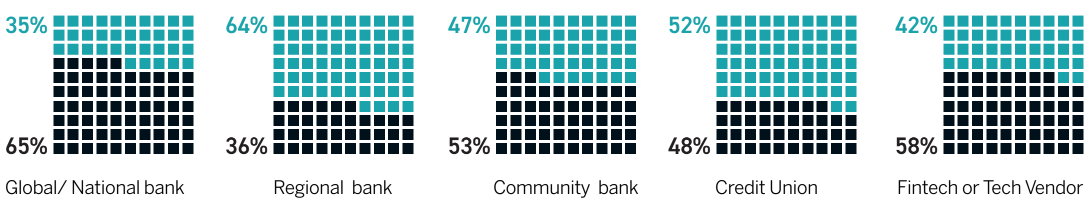
Do you expect tech giants Amazon, Apple, Facebook or Google — or more than one of those companies — to become a major competitor to your organization in the next three years?

(base: 175 banking respondents)

Expect tech giants to become a competitor

Don't

In 3 years,
47% expect tech giants to become a major competitor



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

Consumer behaviors

Cryptocurrencies are a big theme in investing circles and take up a lot of space in the financial press. Yet just two in ten financial advisors currently counsel their clients on crypto holdings. Just over one in ten manages Bitcoin or other digital currencies within client accounts. Still, while only 4% of clients of advisors surveyed are invested in crypto, six in ten advisors expect that to increase in 2022.

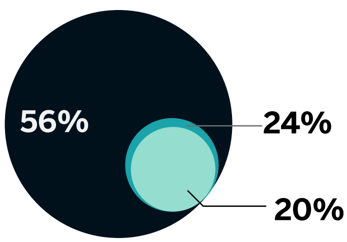
Crypto data for wealth management

(base: 153 wealth management respondents)

● No, and no plans to do so ● No, but we plan to in 2022 ● Yes

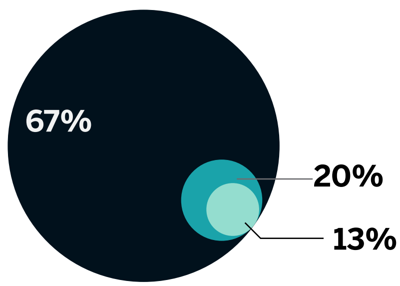
Do you advise your clients on crypto holdings?

44%
expect to be advising clients on crypto by the end of 2022



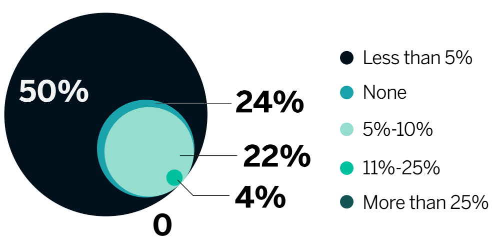
Do you manage crypto within your clients' accounts?

33%
expect to be manage clients' crypto by the end of 2022



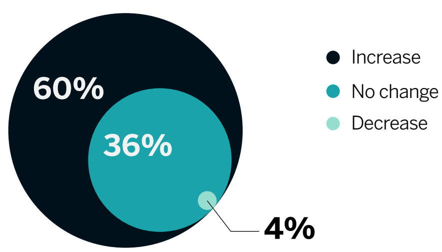
What percent of your clients currently own crypto?

On average, **4%** of clients currently own crypto



How do you expect the percentage of your clients who own crypto to change in 2022 compared to 2021?

60% expect the percentage of clients holding crypto to increase



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

How consumers transfer money is perhaps a more pressing issue. Banks compete ferociously to provide customers with a variety of services and keep their business, especially with bank-branded credit cards. Only four in ten banks see an increase in their investment in traditional credit cards with loyalty and rewards features within the next three years. That may be a reflection of other competitive threats to credit cards, such as digital payment alternatives like PayPal and Venmo and initiatives by the Federal Reserve. One in four banks sees a real possibility of competition in consumer banking from potential Fed initiatives such as FedNow real-time payments, an alternative to traditional wires and ACH transfers, and the potential creation of a "digital dollar" currency.

Two out of 10
financial advisors currently advise clients on crypto holdings but that percent is expected to double by the end of 2022.

The new war for talent and clients

Financial advisors who break away from Wall Street brokerages to venture out on their own as independent advisors have been a growing trend for years. Advisors expect even more advisors to go the independent route in 2021 and to take their clients with them. Independent advisors at registered independent advisory firms, or RIAs, operate under the fiduciary rule, the industry's gold standard of putting a client's financial interests first and avoiding conflicts of interest. Brokers, or advisors who work at brokerages, operate under the lesser standard known as Regulation BI, which requires that an investment only be "suitable" for a client and that conflicts of interest merely be disclosed, not avoided.

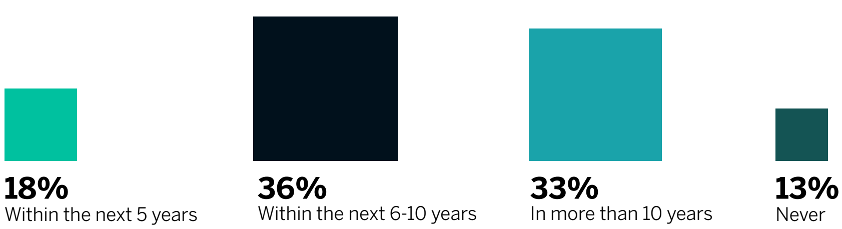
Fully seven in ten advisors of all stripes think that clients will prefer paying fees to their advisor based on their assets under management and not commissions. Nearly one in five thinks clients will prefer paying a flat fee. Only 8% see clients preferring to pay commissions under the brokerage model. Just 4% of advisors think that clients will prefer the model of hourly-based fees for financial planning. Nearly seven in ten expect an increasing number of clients to move to RIAs. That may not be a death knell for wealth management by traditional wirehouses, as they create or buy independent firms and fold them into a "hybrid" structure of investment advisor and broker-dealer.

The wealth management and financial planning industry is dominated by white males. The Certified Financial Planning Board, which oversees credentialing of the certified financial planning, or CFP, designation, says that more than three in four advisors, or 76.6%, are male. Yet fewer than 3.5% of more than 90,000 CFPs are Black or Latino. Despite their likely future client base of investors of color, only half of all advisors surveyed think that the wealth management industry will achieve representative diversity in 10 years. One in ten says that balance will never happen.

Within what time frame do you think the wealth management industry will achieve representative diversity (in terms of age, race, gender) among employed financial advisors?

(153 wealth management respondents)

54% Expect the wealth management industry to be representatively diverse within 10 years



Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

Fewer than two in ten bankers thinks their team has 100% of the skill sets needed to achieve their goals. More than half, or 66%, said employees and executives mostly had the necessary skills. To address that skills gap over the next three years, three in four banks plan to hire new talent. Two in three banks also plan to "upskill" employees, while one in three plans to outsource functions to third parties.

Competition is everywhere

No company can afford to ignore competition from peers or players with a different business model altogether that is fueled by digital technology.

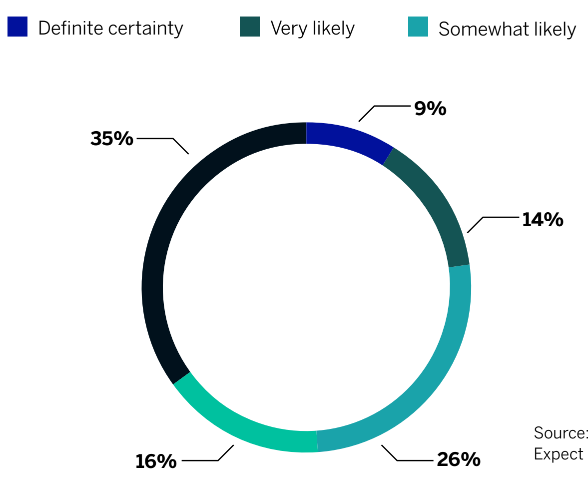
As homebuyers seek to simplify the process of purchasing property, half of those in the mortgage industry expect traditional models of lending to be most disrupted in the next three years by one-stop home buying and lending. One in four sees online real estate buyers and lending affiliates as a significant competitive threat. Startups that work directly with consumers, bypassing banks, brokers and lenders, threaten to upend the traditional home buying process from start to finish.

Despite — or perhaps because of — the pandemic, consolidation continues to sweep through the banking industry. Banks aren't just buying other banks: Amid low interest rates that suppress profits from lending, they're also snapping up asset management companies and other non-banks that generate income from fees. As of the end of September, deals totaling $54 billion had been announced, compared to $17 billion at the same time last year, according to data from Dealogic.

Banks are seeking scale that will enable them to compete with larger rivals, expand mobile banking, online deposits and contactless payment services, and go head to head against financial technologies and growing digitization of the financial services industry. One in four banks of all sizes sees a merger as very likely or certain to happen in 2022. A little more than one in four says a deal is somewhat likely. Which banks are most acquisition-minded? Some 22% of global and national banks; 30% of regional banks; 24% of credit unions; 14% of community banks; and both of the two payments companies surveyed said that a deal is either a definite certainty or very likely. With the Federal Reserve under the Biden administration taking a more critical look at proposed combinations, some deals may not get a green light.

One in four bankers surveyed see a merger in their future in 2022.

How likely is it that your bank will buy or merge with another bank in 2022?
(base: 175 banking respondents)

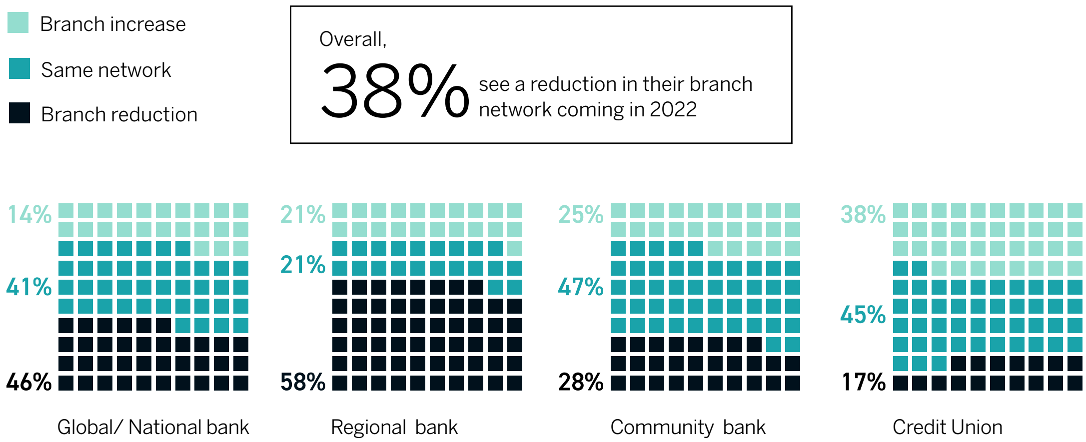


Source: Arizent Research, 2022 Predictions – What to Expect in the Year Ahead

When the pandemic hit in March 2020 and the nation went into lockdown, many financial institutions shut their branch offices and reduced operating hours. Mid-size banks don't foresee recovering from those closures: six in ten regional banks see more contractions next year. Meanwhile, credit unions are taking the opposite tack: four in ten plan to expand branches in 2022

What are your bank's branch plans for 2022?

(base: 135 banking respondents)



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Nowhere are acquisitions more prevalent than in the financial advisory firm sphere. RIAs are undergoing a frenzy of deal-making, as competitors, banks and private equity firms snap them up at record levels. As of the end of September, DeVoe & Co.'s RIA Deal Book reported 160 tie-ups between firms so far this year, topping the 159 in all of 2020. It's the eighth year in a row of record deals for the industry and there are no signs of it stopping. The heavy focus on independent advisory firms, whose bread-and-butter is in-person financial planning services, faces stiff competition from all-digital advisors with cash management services, like Betterment, Wealthfront, Acorns and ElleVest. As low-cost robo advisors tweak the value proposition of human advice by delivering hyper-personalized solutions crafted by algorithms, independent advisors need to model out the role of digital advice in their future acquisition plans.

Conclusions

- Uncertainty lingers over when the economy will fully recover and what role burgeoning inflation will have in the timing of that turnaround, but financial companies can't afford to take a wait-and-see-what-happens approach. Consumers in the past 12 months have moved even deeper into using digital technologies rather than in-person relationships for transactions, which means financial companies need to shore up their piecemeal approach to digitization.

- The pandemic lockdown made consumers, executives, managers and workers stay home and rely on their computers and cell phones to conduct transactions and business. COVID thus gave financial services companies a major tailwind to accelerate their adoption of digital technologies. But approaching a digital strategy as not just a cost center, but also a profit center requires a holistic strategy. Financial companies need to use the COVID tailwind not just to develop new products and services, but also to re-envision their operating models.

- Greater use of digital technology is accompanied by a heightened potential for data privacy breaches and fraud. Not only consumers are at risk; financial companies need to fully grasp the reputational and operational risks of not getting digitization right, particularly as government agencies and lawmakers ramp up scrutiny of Big Tech's use of consumer data.

- ESG is both a major trend and a grab bag of definitions, benchmarks and indices. With the SEC looking to issue rules governing how the label is used, financial companies need to prepare for definitions that will likely change how they market themselves and their investment products to consumers and shareholders. With ESG a wild card factor, financial companies need to ensure that they neither overpromise nor underdeliver.

- Stock and property markets are hot and so is deal-making. Financial companies need to be clearer than ever on their reasons for an acquisition, ensure that their post-COVID strategy aligns with deals done amid the pandemic and not overpay.

- Financial advisors are overwhelmingly older white men. Their future clients are not. Planners and their employers need to accelerate their shift to a more inclusive and representative workforce if they want to tap into their future customers. Waiting a decade to make those changes will impact the bottom line.

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