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It's that time again, when we take a look at 2017 and dust off our crystal ball to prognosticate about the future

2017 Year in Review

by [Claude Hanley](#) (202-337-7875)

Goodbye Grinch

In November, the Consumer Financial Protection Bureau's Director, Richard Cordray, stepped down. His tenure was marked by controversy and critics characterized his approach to rulemaking and enforcement as autocratic. Many financial industry executives viewed Cordray's departure as a bit of holiday cheer.

A Holiday Present

The House and the Senate separately passed bills to overhaul the tax code. Congressional Republicans are optimistic they can approve a final bill and present it to President Trump before the end of the year. According to S&P Global Market Intelligence, banks stand to gain significantly from a reduced corporate tax rate. The five biggest U.S. banks alone may have tax savings of $11.5 billion, the biggest sum for any sub-industry group tracked by S&P.

Hacked!

In early September, Equifax, Inc. disclosed a data breach that potentially compromised the data of 145.5 million U.S. consumers. Hackers gained access to names, Social Security numbers, credit card numbers, birthdates, and other personal information. In response, Congress is considering legislation that would require credit rating agencies to submit to regular federal cybersecurity reviews and to a phase-out of the use of Social Security numbers to verify consumers' identities.

Nuclear Provocations

Fear of a possible nuclear war increased in the wake of a series of provocations by North Korea including a reported test of a hydrogen bomb and the test of a new intercontinental ballistic missile that its government claimed could reach the Eastern Seaboard of the United States. In response, the United Nations Security Council and the U.S. have imposed additional economic sanctions.

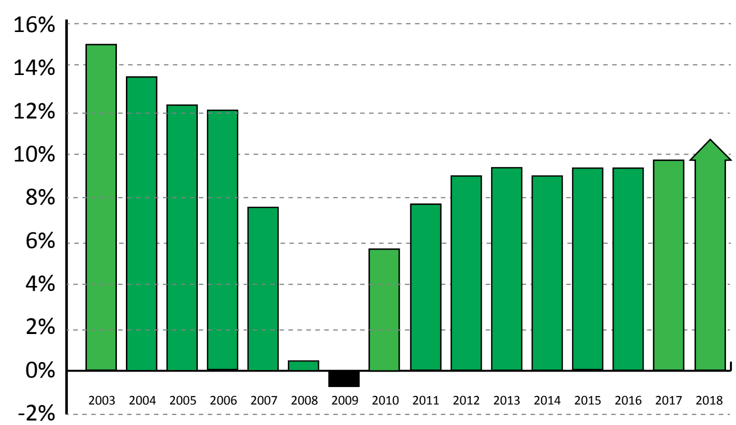
Irrational Exuberance?

Bitcoin is now priced at more than $17,000. Is it worth is? Some Bitcoin skeptics call it a fraud; but, just this week, a futures market opened and Bitcoin prices surged. As of this posting, Bitcoin's value has increased by more than 2000% in the last 12 months.

Predictions for 2018

For the first time since the financial crisis, industry ROE will climb above 10%. A few interest rate bumps from the Fed in 2018 will drive margins higher. Enactment of key components of the Financial CHOICE Act will save regional banks millions in stress-testing costs. Share buyback volumes will increase as a result of less stringent capital requirements. ~ *[Kevin Halsey](#), CPG.*

Banking Industry Return on Average Equity (%)



Source: FDIC

As loan demand continues to accelerate and interest rates creep up, smaller and medium-sized banks will find it increasingly difficult to compete for low cost consumer deposits and instead will place much **greater emphasis on the commercial and small business markets as more important funding sources.** ~ *[Rolland Johannsen](#), Consulting Associate.*

Commercial real estate borrowers, especially multi-family borrowers, will face tightening underwriting guidelines as lenders and investors become more concerned about lengthening maturities, interest only terms and historically low interest rates, which lead to larger loans. **Rising interest rates in 2018 could have a significant and adverse impact on debt service coverage and loan to value for income properties.** ~ *[John Barrickman](#), New Horizons Financial Group.*

Banks of all sizes will have to monitor the refinement of blockchain and determine how it can be employed to free up capital e.g., improving the efficiency of securitization, lowering transaction costs by reducing human involvement, speeding processes, especially financial transactions such as deposit and currency settlements, and provide security and trust to counter the threat of cyberterrorism. ~ *[Christine Corso](#), New Horizons Financial Group.*

2018 will see a return to traditional media advertising among bank marketers. Many bankers realize they have gone too far

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Predictions for 2018 (continued)

with digital advertising, forgetting that traditional advertising is better at "top of the funnel" activity like creating awareness and favorability. This needs to occur BEFORE bottom of the funnel activities like research and purchase take place, which is what digital is so good at. ~ *Mark Gibson, Consulting Associate*

Marketers will have to continue to learn new skills and accelerate the use of digital marketing campaigns to raise awareness and consideration for their banks' brands. With the number of bank branches continuing to decline, marketers won't always have the physical billboard the branch represents. Instead, there will need to be a renewed focus on target marketing to generate awareness and sales with very specific customer segments and demographics. Look for more aggressive return on investment goals, too. As banks get better at digital targeting and marketing, management expectations will rise to demand better use of marketing dollars. ~ *Mary Ellen Georgas, CPG.*

The Win-Win of Sustainable Banking

by Mark Gibson (508-322-8146)

For all the talk about sustainability these days, it's a concept that continues to be frequently maligned or misunderstood. What exactly is it? Why does it matter? And how can you turn it into a differentiator and profit generator?

Let's start with the financials. Sustainable investing has grown 33% since 2014, and by 2017, $8 trillion in assets have incorporated sustainability into investment considerations. According to a recent article in the MIT Sloan Management Review, companies focused on long-term (sustainable) planning are more likely to attract long-term investors.

Companies with sound sustainability practices also have superior access to capital and pay less for it. And studies show that stock price performance is positively influenced by good sustainability practices.

So what is sustainability anyway?
Sustainability is typically characterized by three broad themes, known in shorthand as "ESG:"

1. Environmental Impact
This involves creating a culture focused on environmental impact, conservation, and long-term sustainability. Banks can have a meaningful impact in several areas.

2. Social Impact
Social impact can be defined in a multitude of ways—loosely categorized as community, diversity, and employee engagement.

3. Governance and Infrastructure
This is probably the least understood of the three themes, and the most difficult to actuate. It includes such things as:

- Defining a long-term mission or purpose
- Creating a purposeful positive culture
- Ensuring sustainability within the bank's culture, core values, and strategic decision making
- Keeping the Board of Directors involved

Read the full article – including the five things you can start working on immediately to build the "Sustainability Bridge" from strategy to superior sustainable growth on ababankmarketing.com.

The Risk of Irrelevance: Customer Relationship Growth in the Digital Age

by Mary Beth Sullivan (202-337-7872) and Mark Gibson (508-322-8146)

Many banks and credit unions remain trapped in product and transactional thinking and haven't made the transition to a focus on customer relationships - and building unique value that motivates prospects to choose you, refer you, and do more business with you.

As branch traffic falls and sticky digital services simultaneously reduce customer switching, the need for action is acute. Shifting to a customer relationship focus will drive near-term results including:

- Decreasing acquisition costs;
- Increasing perceived value;
- Improved retention rates;
- Increased profitability; and
- Pricing optimization.

How does an institution shift (back) to a focus on customer relationships and lifetime customer value and away from a product focus with the speed and agility necessary to stake its claim in this new competitive landscape? Focus on the specific areas of opportunity that can yield the best result for an individual institution.

The Solution: CPG's Customer Growth Sprint

CPG begins with a rapid assessment which allows for immediate focus on areas which will provide the most value the fastest.

Step One: Key Metric Performance - To identify immediate opportunities, we evaluate a short list of KPMs to determine performance improvement focus areas.

Step Two: Performance Improvement Sprint - For the one or two KPMs that offer the most opportunity, we perform a "rapid sprint" using data and analytics to understand the root cause for suboptimal performance, and we provide prescriptive recommendations to generate value and growth quickly.

Step Three: Adopt the Customer Management Framework - We work collaboratively with your project team to create a strategic framework for becoming a true customer relationship management organization. Using CPG's Customer Management Framework, we connect the dots from Steps One and Two above. In a one-day workshop, we identify opportunities to improve awareness, acquisition, onboarding, expansion, and loyalty efforts for priority customer segments. We help you identify target areas for further development and improvement. And we help you develop a process to continually strengthen your customer management capabilities.

Visit our website for more information about CPG's Customer Management Framework.

Happy Holidays and Best Wishes for Success in 2018!