

Nearly Two-Thirds of Equity Analysts Expect Regulatory Pressures on Global Banks to Increase Over the Next Five Years, According to Broadridge Report

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LAKE SUCCESS, N.Y., Dec. 9, 2015 /PRNewswire/ -- Nearly two-thirds of equity analysts (61 percent) who cover global capital markets institutions expect regulatory pressures on banks to intensify further through 2020, with potential new capital rules, informally known as "Basel IV," likely to have the greatest effect on their operations, according to a global survey of nearly 150 buy-side and sell-side analysts. The first-of-its-kind survey, developed by Broadridge Financial Solutions, Inc. (NYSE: BR), canvassed analysts across the U.S., Europe and Asia on their outlook for banks and their views on the industry's opportunities and challenges over the next five years.

According to the report, "[Restructuring for Profitability](#)," more than two-thirds of analysts (68 percent) believe regulation has made the financial system safer. But, they are also concerned about "regulatory creep" and its potential impacts on the industry. Although so-called "Basel IV" rules are still under discussion, nearly three-quarters of the analysts surveyed (72 percent) believe these rules – which are expected to standardize the risk-weighting of bank assets – will have the biggest regulatory impacts in the next five years. Among European analysts, 87 percent held this view. U.S. analysts surveyed are primarily concerned with the future effects of annual stress tests (cited by 77 percent).

New regulation will have the most impact on banks' trading operations through 2020, according to the study:

- More than three-quarters of analysts (78 percent) expect regulations to disrupt equity-trading business models over the next five years. Ninety-two percent expect FICC trading business models to be disrupted, including 28 percent of analysts who characterize these changes as "dramatic."
- While analysts predict revenue growth rates to increase across business lines, compared to the period between 2010 and 2014, trading growth is expected to recover but remain relatively muted. FICC, which experienced annualized declines of 8.5 percent over the previous four-year period, is expected to grow at 0.2 percent, while annual equity trading growth is estimated at 2.8 percent, versus 1.7 percent previously.

"Regulation has imposed tougher capital rules on banks, creating pressure on traditional models," said Broadridge Senior Vice President of Strategy Vijay Mayadas, who oversaw the study. "This means that banks will need to explore more creative ways to realign their operations and employ more transformative measures to reduce costs."

Favoring Cost Reduction, Restructuring

Analysts generally favor bank responses focused on cost reduction – above efforts in balance-sheet management and top-line growth – or restructuring. More than half believe banks over the past five years were not aggressive enough at re-engineering business processes (55 percent) and investing in new technology (54 percent) to improve efficiencies. More than half (55 percent) sees back-office technology as having high potential to increase efficiency and reduce costs over the next five years, with another 30 percent citing some potential.

A key challenge facing these institutions is how to streamline the technology and operations that enable equities and fixed income trading. Commenting in the report, Brad Hintz, a top-ranked banking analyst for more than a decade and now adjunct professor at New York University's Stern School of Business who advised on the study, said, "Wall Street has cut back in each silo but done very little re-engineering across the business."

Three-Speed Industry Transformation

The survey spotlights major differences in how analysts across the U.S., Europe and Asia foresee the industry evolving over the next five years:

- U.S. analysts are the most positive about the outlook for global banks and had the most upbeat predictions for revenue growth across nearly all lines of business. Similarly, they expect return-on-equity to double from 2014 levels over the next five years, essentially meeting the cost of capital. European and Asian analysts also expect banks' returns to increase substantially, but still fall short of average equity capital costs.
- European analysts advocate most strongly for restructuring and cost reduction. More than half (58 percent) cited "significant opportunity" in rationalizing and disposing business units to improve performance, compared to 38 percent of U.S. analysts and 40 percent of Asia analysts. Forty-five percent of European analysts believe cost controls will have the greatest impact on bank valuations over the next five years—above balance-sheet management or growth—compared to 39 percent of U.S. analysts and 28 percent of Asia analysts.
- Asian analysts hold the strongest views on regulatory changes. Nearly half (49 percent) believe that new regulations since the 2008 financial crisis have not notably improved the stability of the financial system, compared with 22 percent of U.S. analysts. They were nearly twice as likely as U.S. analysts (75 percent vs. 39 percent) to predict regulatory pressures on global securities firms will increase—rather than remain the same or decrease—over the next five years.

"These trans-oceanic differences reflect a three-speed industry transformation," added Mayadas. "Put simply, U.S. banks have adapted more quickly to the post-crisis environment. Many of the most persistent cost challenges are still common across regions, but rulemaking will weigh more heavily on Europe and Asia in the years to come."

Methodology

The report is based on qualitative interviews with top-ranking analysts and a global survey of 147 buy-side and sell-side analysts (56 percent and 44 percent, respectively). Broadridge, Brad Hintz, adjunct professor of finance at New York University's Stern School of Business, Institutional Investor Custom Research Group (IIRG), and various capital markets experts collaborated in the design of the survey and analysis of results. IIRG fielded the survey online between June and September 2015. Respondents included analysts in North America (33 percent), Europe (29 percent), Asia (30 percent) and other geographies (7 percent). The sample consisted of buy-side voters and sell-side nominees from II's annual rankings; it represents 10 to 15 percent of the overall population, according to IIRG.

About Broadridge

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