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Top financial services issues of 2018

December 2017
PwC Financial Services

Our annual discussion of the themes that will define the year ahead. What can you do now to prepare for success in 2018?

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Introduction

There's no doubt that the financial services industry is changing. It always does. But whether you think about shifts in technology, regulation, or global events, the pace and the nature of these changes can be dizzying. As you plan for what's ahead, it's worth taking some time to reflect on your long-term challenges and opportunities. What has made your firm successful up until now may not work as well in the future.

We're pleased to share with you our annual top issues report, looking at what we think will be on the minds of financial services executives in 2018. We offer our insights on the changes to come, and how you can turn them to your advantage.

Our digital future

Financial institutions are in a bind. Legacy systems, processes, and relationships make innovation extremely difficult, even as new technology ramps up user expectations and attracts new competitors. Many firms still struggle with making a **digital transformation**, even as their future growth may depend on it.

Growth opportunities *do* exist. Using **data and analytics**, firms may predict client needs and find new paths to profit**.** With **artificial intelligence and digital labor**, they can unlock powerful insights and move staff to higher-value work. And **blockchain**, or distributed ledger technology, could bring greater efficiency and security to custody, payments, securities trading, and beyond.

From strategy to execution

Meanwhile, there's a bigger picture to consider. All firms have to manage expenses—and leaders now approach **cost containment** with techniques that are flexible, adaptive, and in line with their company's core mission. You'll also need to adapt your strategies to rapidly changing **global trends**, the possibility of a turbulent Brexit, and the effects of tightening monetary policy. Uncertainty can also spell opportunity, and financial firms may want to look to **deals** to shake up their business models, seize on new technology, or bolster their most competitive teams. Forward-thinking firms are also turning to **people strategy** to take advantage of diversity, sustain trust, and prepare their workforce for the future.

Governments and markets

Cybersecurity continues to threaten profit, data privacy, and reputation, and regulators have been paying attention. In other ways, government policy is leaning in a more favorable direction, with a new set of referees in place at key agencies as **regulatory easing** kicks in. It's now possible for you to think about how you might make your compliance investments more efficient, particularly given recent advances in **RegTech**. And as Congress has worked on reforming the tax code, firms are ramping up **tax planning** to adapt to what may be a very different set of rules.

A look back

For many US financial institutions, 2017 was a strong year. But the good news wasn't distributed evenly. Many banks maintained rock-solid balance sheets and generated strong profits even though a meager rise in interest rates limited net interest margins. Meanwhile, some insurers and asset managers had a tough time, facing underwriting losses and changing client preferences.

The year's big stories could reshape the landscape for financial institutions, creating both obstacles and opportunities:

- Plans by the Trump administration to soften post-crisis regulation, particularly through appointments across the agencies that regulate US finance.
- The overhaul of US taxation reduced the corporate tax rate from 35% to 21% and may prompt the repatriation of billions of dollars in profits generated overseas.
- Global uncertainty surrounding China's mounting credit growth, the rise of European nationalism, and tensions between the US and some of its biggest trading partners, including Canada, Mexico, and China.

The road ahead

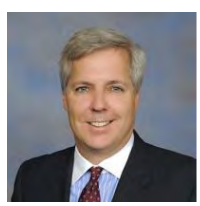
We see many reasons to be optimistic. Leading firms are starting to reap the rewards of investments in emerging technology. They're also taking steps to get ahead of regulatory changes, and they're adapting their long-term strategies to reflect global and societal shifts. Throughout 2018, we expect to see:

- An intense focus on limiting costs, based on a clear understanding of an institution's central mission.
- Continued use of software bots and artificial intelligence to make operations more efficient and discover insights that can improve the customer experience.
- A new round of deal-making as firms look to consolidate their position or step away from non-core activities.

We're grateful for the help of so many colleagues and friends who contributed to this report. We appreciate the opportunity to share our outlook for the coming year. Please reach out to any of us, or our other PwC financial services colleagues, if you'd like to talk further.

Best wishes for a happy, healthy, and prosperous 2018.

Neil Dhar
US Financial Services Industry Leader
@NeilKDhar



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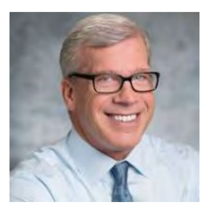

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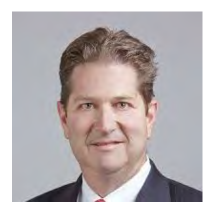

Greg Galeaz
US Insurance Leader
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Digital transformation

Both wholesale and retail users now expect a digital experience from their financial institutions. It's about differentiated customer experience, providing what customers want, when they want it, and how they want it, whether you're a bank, insurer, or asset manager. This isn't just a matter of cosmetics. You'll need to change your back-end operations to support it. And you'll need to think differently about how to solve problems. Technology isn't a silver bullet.

A look back

Trust in the machines. There's a behavioral shift underway toward digital channels. Cases in point: our 2017 Digital Banking survey found that 46% of customers skipped bank branches altogether, relying instead on smartphones, tablets, and other online applications; a direct-to-consumer insurer beat out traditional firms in a major 2017 customer satisfaction survey; and asset managers moved aggressively downmarket with automated advice once offered only to affluent clients. [1, 2]

FinTech and InsurTech story shifts to partnerships. Until recently, many firms feared that new entrants would disrupt key parts of their business. But incumbents are now figuring out their own strengths, and startups are seeing how hard it is to scale in a highly regulated industry. Both have come to see the advantages of working together—but which partnerships make sense? Due diligence and finding the "right fit" jumped in importance this year.

More than a money problem. Many financial institutions understand that they need to invest if they are to transform. They *know* they can't keep running COBOL on mainframes if they want to compete. For example, retail banks alone spent US$20 billion on digital technology in 2017—but much of that investment hasn't paid off.[3] And firms began thinking more broadly, focusing on culture, governance, and training.

The road ahead

Business models open up. The need to balance openness and protection in a connected world will likely become a major theme of 2018. By opening platforms to third parties through application programming interfaces (APIs), firms can unlock value from data, create synergies with partners, and develop new cloud-based services more quickly. We expect this to accelerate in 2018, with firms thinking more about how they develop, manage, and secure APIs.

Rise of voice as a channel. Many financial institutions will launch or build out virtual assistants in 2018. This goes far beyond technology. In designing bots, firms make branding choices that go to the heart of customer experience. Insurers, for example, might use real-time sentiment-monitoring tools to create "off-ramps," directing customers to human agents when appropriate.

Digital help. Technology is rapidly reshaping the financial services workforce. Digital tools can do more of the "heavy lifting," freeing up staff to concentrate on more complex and value-added functions. This transition may not always be smooth, but we expect to see firms paying more attention to how humans and digital labor can work alongside each other more effectively.

What to consider

Balance the doers and the dreamers. People who run your business day in and day out are generally quick to shoot down ideas that aren't fully formed. At the same time, raw creativity can turn into the next big idea if given room to grow. That's why many firms turn to corporate venture capital, developing in-house innovation labs, or partnering with or acquiring FinTech or InsurTech startups. Bring technologists, strategists, and designers together at the start.

What problem are you trying to solve, anyway? Even the best innovation program is doomed to fail without a clear, measurable objective. Firms often jump straight to measuring ROI without really being clear on what "return" means. If you want customer service reps handling more complex issues, for example, stop measuring call volume. Know what you're trying to achieve and measure accordingly.

Plug and play. Many firms now find they can replace entire functions with fully digital cores that supply standard offerings such as checking accounts or insurance policies in ways that weren't possible a few years ago. This can be more efficient than patching legacy infrastructure. Explore the options. You might be surprised at how much "buy" is now edging out "build."

Learn more

Bank to the future: Finding the right path to digital transformation

Redrawing the lines: FinTech's growing influence on Financial Services

2017 Financial services trends: Moving beyond the old-fashioned centralized IT model

Digital banking: Thinking outside the branch

The intersection of cloud computing, regulations and financial services

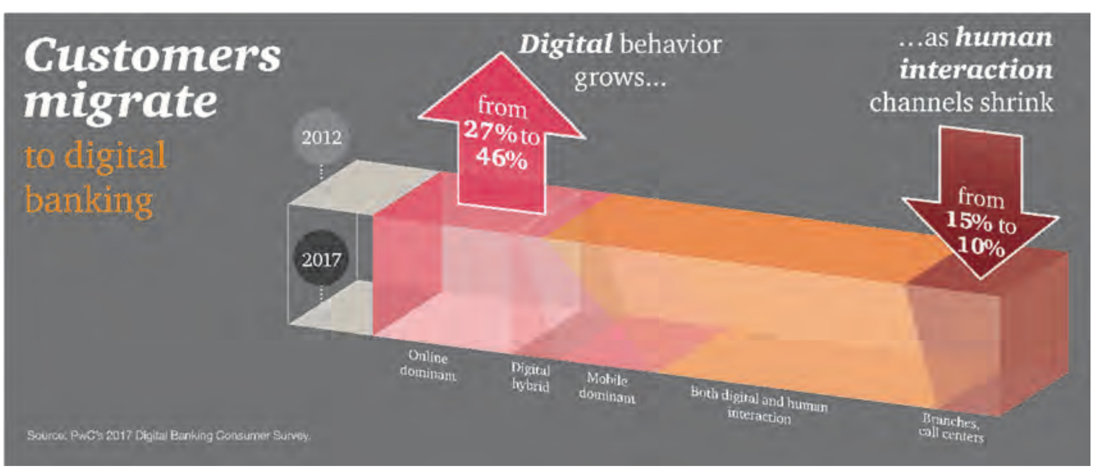
Making change: Learning from major bank transformation projects

Insurance 2020: The digital prize – taking customer connection to a new level

Asset & Wealth Management Revolution: Embracing exponential change

> ***"It's not just a technology issue. Financial institutions will need to grapple with big changes to their operating models as they transform their businesses."***
>
> **– Scott Evoy**
> *US Financial Services Advisory Digital Leader*

Figure 1: Customers expect a digital experience from financial services providers.



Data and analytics

Financial institutions, both retail and commercial, have more data on their customers than anyone else. But they still struggle to extract meaningful information and use it for good business decisions. By some estimates, businesses use only 0.5% of available data.[4] To turn data into insights, firms must overcome data stuck in silos and incompatible formats, privacy concerns, and more. This is costly, both in time and money. Firms need a new approach.

A look back

Beyond buzzwords. In 2017, financial firms were busy finding productive ways to use the mountains of data they collect. Asset managers use big data to analyze non-financial factors when evaluating financial instruments. Banks use heuristics to analyze marketing campaign results, improving the return on these investments. Some home insurers now offer discounts on premiums for customers who install connected smoke detectors in their homes. And while these devices can mitigate losses, insurers also hope to use the data to better understand customer risk profiles.

Insurers take the lead. Many insurers started to focus on upgrading their model risk management programs in 2017.[5] Of course, the industry has always relied on analytics. Now, instead of a commercial software package with a single model, firms use multiple tools with multiple models and more data sources. Some are used in similar processes with separate intent (such as claims models to assist adjusters in predicting severity versus claims level actuarial models to predict severity for reserving or pricing). While this adds complexity and validation risk, firms should be able to make more sophisticated decisions with greater confidence.

The road ahead

Devil in the data. For firms with varying account structures and naming conventions, finding the right data is rarely simple. In 2018, firms will prepare data for machine learning, making it a priority to label *a lot* of data. It means sourcing, organizing, and curating unstructured data (text, images, and audio), too. They may even make more—creating "synthetic data" mimicking real client profiles to help train systems.

Information overload. The volume and speed of newly available data is exploding, and we could see 44 zettabytes of data created annually by 2020.[6, 7] Firms need new ways to store, classify, and use it all. In 2018, look for more focus on "lean data," an approach that applies the lean principles of maximizing value while minimizing waste. We'll see teams defining specific goals for the data (creating value) with a focus on efficiency and speed (minimizing waste).

Teaming for success. Financial institutions will look for success by combining business domain, analytics, and artificial intelligence (AI) experts who understand algorithms and new techniques, as well as data engineers/scientists who can work with cloud technology and machine learning systems. For now, it's a rare combination, and we expect firms to focus on finding, training, and building teams with these profiles in 2018.

What to consider

Decisions, decisions. According to our most recent Big Decisions™ survey, only 37% of financial services respondents believe that internal data and analytics will drive their next big decision.[8] So how can you make more sophisticated, data-driven decisions? First, you'll need to understand when to sacrifice sophistication for speed, or vice versa. Make sure your data scientists and business leaders are working together, and match the type of analysis to the problem you're trying to solve. If you need to understand fast-moving trends about how your clients behave, for example, prioritize speed over lengthy data cleaning and advanced analytics. Ideally, you should also mine unstructured feedback data for more immediate insights on the changes you should make.[9]

Let's get it together. You can't get insights from the data you have on client behavior if it's scattered across the firm in disconnected databases. For information you can act on, create data lakes (repositories for both structured and unstructured data that can evolve based on business needs) that bring together data from different sources to power the applications of the future.[10]

Learn more

PwC's Global Data and Analytics Survey 2016: Big Decisions™

Revolution – not evolution – will break through analytics' arrested development

With the power of data and advanced analytics, divestitures can increase returns, transform a company

Catalyst or threat? The strategic implications of PSD2 for Europe's banks

Where have you been all my life? How the financial services industry can unlock the value in Big Data

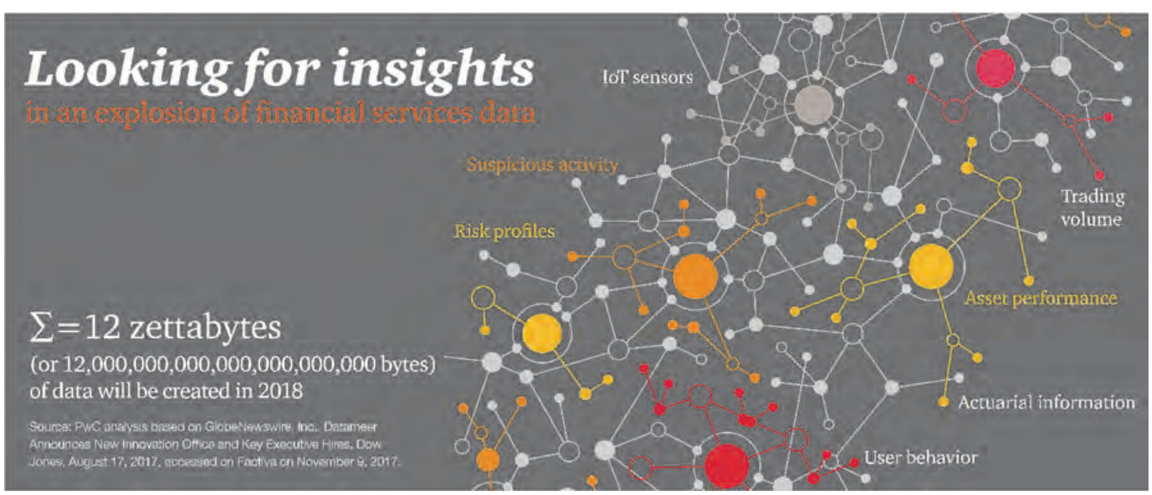
Advanced analytics and model risk management for insurance applications

Sizing the prize

Advanced analytics and model risk management for insurance applications

"We can now get access to very different types of data to make better decisions in almost any function. But this will require different skill sets, and everyone in the organization will need to adapt."
– Julien Courbe
US Financial Services Advisory Leader

Figure 2: Firms are mining mountains of data to sharpen business strategy.



Artificial intelligence and digital labor

Artificial intelligence (AI) and digital labor cover a range of emerging technologies being used across the financial services industry, including robotic and intelligent process automation (RPA and IPA). Recent advancements have surprised even the most optimistic, but don't be distracted by these bright, shiny toys. Technology should solve real business problems, and you'll face issues such as control and governance when you plug it into your real-world operating environment.

A look back

Thinking machines get real. In 2017, financial firms quietly introduced a range of practical machines that think. Some banks added AI surveillance tools to thwart financial crime, while others deployed machine learning for tax planning. Wealth managers can now offer automated investing advice across multiple channels, and many insurers now use automated underwriting tools in their daily decision making.

RPA 2.0. After gaining maturity in operations and finance, areas such as risk, compliance, and human resources are next on the list of RPA opportunities. Our 2017 RPA survey found that 30% of respondents are at least on the way to enterprise adoption.[11] But the path hasn't always been smooth. Some firms uncovered risk, control, and people issues they hadn't expected.

Follow the money. AI companies received more funding in 2017 than ever before, and for good reason.[12] In our 2017 Digital IQ Survey, about half (52%) of those in the financial services industry said they're currently making "substantial investments" in AI, and 66% said they expect to be making substantial investments in three years.[13] Almost three out of four (72%) business decision makers believe that AI will be the business advantage of the future.[14]

The road ahead

The shift from RPA to IPA. Today's bots rely on humans to train them, but this will likely change. In 2018, expect to see emerging applications of IPA, including machine learning, auto process discovery, and natural language processing. While these advanced tools still need to be trained, they can learn from prior decisions and data patterns. Many of our clients tell us they are exploring IPA, have IPA bots in production, or are looking to scale.

What's next in AI? The term AI is used to describe anything from automating simple tasks to handling complex thinking assignments.[15] In 2018, firms will likely move toward more advanced "augmented intelligence," with tools that help humans make decisions and learn from the interactions. Firms can also look to AI as a way to customize product design and develop predictive analytics to improve outcomes such as reduced accident rates.[16]

How do you govern a machine? As we enter 2018, financial institutions face some tricky questions. What controls should we apply to AI systems that decide and act in nanoseconds? How much authority should AI have? How do we make sure machines uphold their fiduciary duty? What about regulators? What if things don't go as planned? Look for more emphasis on, and discussions about, these issues in 2018.

What to consider

Computer, what's my balance? Consumers are embracing automated assistants such as Google Home, Siri, and Alexa. You'll need to integrate and manage these new channels, so think about when and where you'll use them. Don't forget to think through "off-ramps" that steer customers over to human backups when needed. Finally, give AI systems the opportunity to learn from the outcomes of human interactions.

With excitement comes fear. Financial institution executives are eager to use digital labor, but many human workers already feel threatened by it. To deploy the technology successfully, you should focus on people issues. Share plans with workers so they can understand which jobs will change and how. You'll need to address these concerns, offer training to help people adapt, and more. Be transparent.

Trust, verify, and explain. For technologies to succeed, they should pass an IT audit. This may not be top of mind in a testing lab, but it will be critical as you move to production. We recommend creating a separate AI audit team—independent from the AI creators and implementers—to focus on controls. And consider transparency. You'll want AI accountability so you can explain why your algorithm reached a certain decision.

"Our clients are now thinking about 'explainable AI,' how an algorithm can explain the logic of its decision. How you would verify and validate your machine learning model is very different from how you'd typically validate a credit risk model."
– Anand Rao
Global Artificial Intelligence Leader

Learn more

A Strategist's Guide to Artificial Intelligence. Note: This article won the Folio "Eddie" award for best business paper in 2017

We, robot: Solving the RPA/human capital puzzle in financial services

Automating the small stuff: How micro-RPA is helping to redefine financial services work

Who minds the robots? Financial services and the need to control RPA risks

Digital robots and the future of auto lending: Achieving process improvements through automation

Briefing: Artificial intelligence

Top 10 AI trends for business leaders in 2018

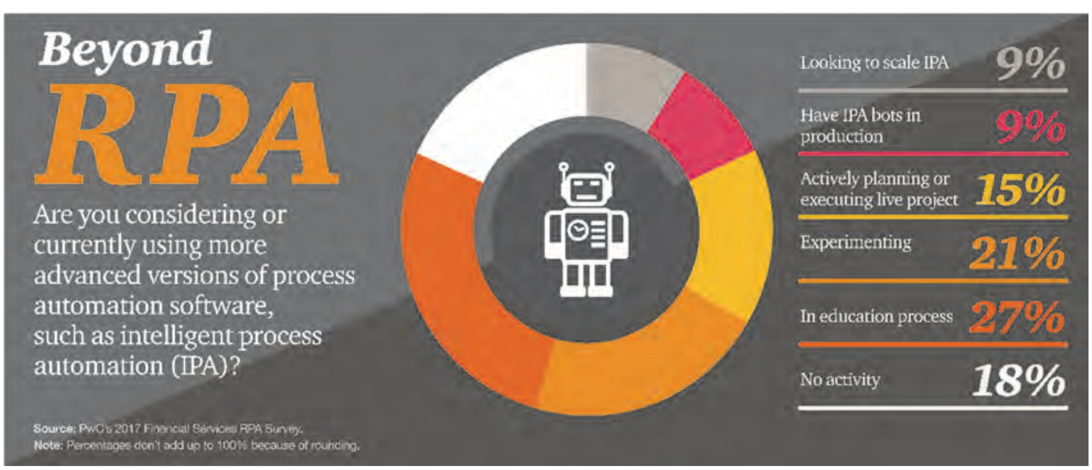
Tax analytics: Artificial intelligence and machine learning–Level 5

Sizing the prize

Bot.me: How artificial intelligence is pushing man and machine closer together

"We're starting to see how powerful intelligent automation can be in the financial services industry. RPA is just the start."
– Kevin Kroen
US Financial Services Digital Labor/ RPA Leader

Figure 3: Financial institutions are exploring more advanced automation tools.



Blockchain

We've been reading about the promise of blockchain technology for several years now.[17] *Many skeptics are beginning to wonder if the "year of blockchain" will ever really arrive. Blockchain isn't a cure-all, but there are clearly many problems for which this technology is the ideal solution. We continue to see banks, brokerages, insurers, regulators, and others actively testing ways to harness the benefits of blockchain. The journey has only just begun.*

A look back

Are we there yet? We still occasionally hear clients ask, "Does blockchain really matter?" The uncertainty is understandable. In 2017, firms created plenty of functional, proof-of-concept projects using blockchain in applications such as internal payments, trade finance, and custody. Despite their potential, many of these projects aren't yet ready for primetime. Still, leading firms are focusing their efforts in a few key areas where distributed ledger technology can solve practical issues.

Exchanges embrace blockchain and regulators warm up. We've seen several global securities exchanges launch blockchain-based platforms. Regulators are working with the exchanges to explore what oversight should look like. And most industry players still struggle with how to audit systems with almost-instant clearing and consensus-based verification.[18]

Together or alone? By definition, blockchains allow multiple parties to work together effectively, even if they don't fully trust each other. The most exciting opportunities come when the largest industry players unite with a common approach. While many financial firms have banded together in various efforts on blockchain initiatives, 2017 also saw some large players step away in favor of working on their own projects internally and keeping the intellectual property.

The road ahead

Trade finance: the place to watch? Today, trade finance is high volume, costly, and time-consuming. Financial institutions and shipping fleets have been experimenting with blockchain to create smart contracts between parties. We think this could be one of the most interesting areas to watch in 2018.

Overhaul of the financial market utility. We see more clearinghouses, custody providers, and others looking at what blockchain can bring to clearing, settlement, and other intermediated functions. Look for blockchain use cases spreading into more mainstream financial market utilities.

Security on the horizon. Expect more attention on security. So far, regulators haven't expressed exactly what they want to see when it comes to controls. As intermediaries press ahead with blockchain projects, expect more focus on issues like security and monitoring.

What will the world look like when blockchain grows up? In 2018, we think the conversation will shift away from the specifics of blockchain code toward bigger issues. What will a distributed ledger world look like? How will parties work together in a multi-blockchain environment? What data can be shared—and should it be? What business processes will we be able to completely rethink?

What to consider

Break out of the holding pattern. Some firms have pursued a wait-and-see strategy with blockchain, tracking other firms with the intent to move ahead when the time is right. This is becoming increasingly risky. The technology is evolving quickly, and the learning curve is significant. You'll also need to convince a range of internal stakeholders, and they'll want to see small successes before signing off on larger projects. All of these things will take patience and finesse. Don't wait.

Be proactive with regulators. Regulators haven't yet set standards around controls and protections for blockchain-based systems, but we expect them to begin setting some ground rules soon. Financial services firms should think about what standards make sense. Consider joining a consortium or trade group to have a say in the conversation. If you don't participate, you'll need to accept what others decide.

Learn more

Building blocks: How financial services can create trust in blockchain

Blockchain is poised to disrupt trade finance

Blockchain

Auditing blockchain: A new frontier

The blockchain problem is a trust problem

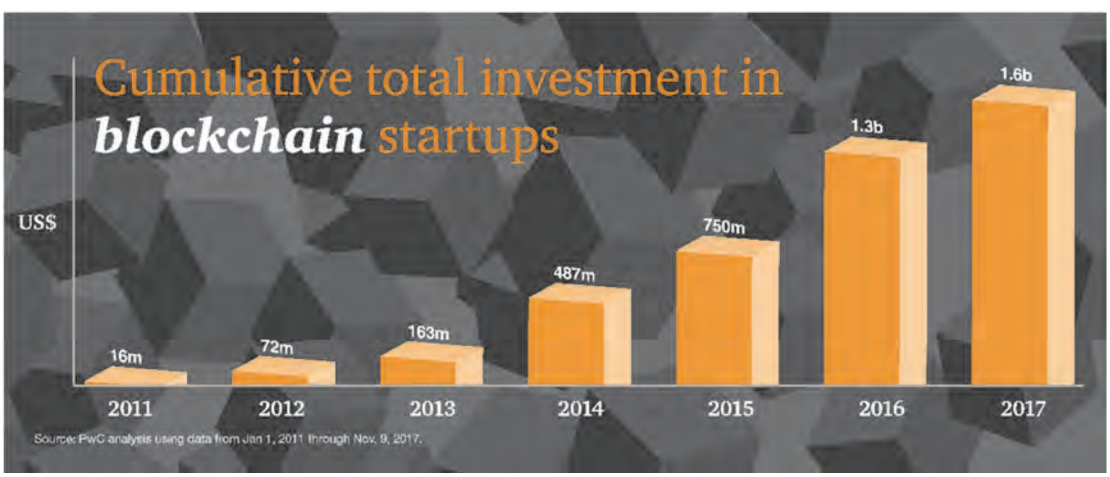
"People aren't just thinking about the technology as a method to promote efficiency and change some of their existing operations. It's also a way to bring about entirely new, creative revenue streams."

– Grainne McNamara
Principal, Digital

"Blockchain is an emerging technology. It's not yet enterprise grade but that process is underway in financial services and now in other industries too. We see this technology as an enabler to some of financial services' most intractable and costly challenges."

– Steve Davies
Global Blockchain Leader

Figure 4: Venture capital shows increased interest in blockchain.



Cost containment

Here's the perception: Experienced managers know how to cut costs effectively. Here's the reality: If you don't start with your firm's mission as the guiding principle, even the most sophisticated cost-cutting plan will likely fail. How should you decide where to make strategic cuts versus where to invest? And what should drive your planning in a world that might require you to completely change your strategy in a few years?

A look back

Let's make a deal. Cost containment has been top of mind for decades, and there are few easy cuts left. That doesn't mean the job is done. Forward-looking institutions looked at structural ways of reducing costs in 2017, and several insurance companies, for example, spun off underperforming business units. By doing this, they were able to redirect capital into investments that reinforce their core capabilities.

The breaking point? Technology isn't a cure-all. Many financial institutions looked to blockchain, robotic process automation (RPA), and other technologies to unlock cost savings and, in doing so, discovered just how broken their IT infrastructure had become. Firms have been applying bandages for years to keep their infrastructure running. Now they're realizing that they can't keep adding new tools on top of an outdated core. While many firms have made strides in addressing this issue, few are there yet.

The road ahead

Growing pains. The conversation around shutting down entire lines of business will likely continue into 2018 and beyond. It's a hard decision and not one that should be made lightly, but many firms have few options. Having already trimmed and outsourced to reduce spending, now they'll ask if there are some parts of the business that no longer belong.

A different kind of bet. We now live in a world where the pace of change makes predictions far more unreliable than ever before. We expect leaders to try a different approach in 2018, doubling down on foundational assets. Targeted cost-cutting can help support strategic investments in information assets, customer experience improvements, and administrative platforms.

Expanded use of digital tools. In 2018, leading firms will continue to deploy digital tools such as artificial intelligence (AI), advanced analytics, machine learning, and RPA to reduce costs and improve decision making. We already see companies using these tools to improve efficiency in front-, middle-, and back-office functions. As use of these tools continues to expand, leaders will be thinking about broader issues around governance, controls, and standards.

What to consider

Don't plan for one future. Business planners know how to pick a fixed target, assess what it will take to get there, and make a plan to close the gap. Unfortunately, that approach won't work so well going forward. In our fast moving world, you can no longer rely on a static vision of where you need to go. You'll want to embed versatility and flexibility into your planning because the future state *will* need to be updated—and more quickly than you expect. Think about *how* you execute and *who* you partner with along the way, and *be prepared* to pivot quickly.

The cult of cost cutting. "Cut 10%. Make it so." Sorry, but this kind of directive doesn't have the power it once had. Culture has to be part of the equation, and changes should be made at every level of the organization. You'll need to deal with managers who have conflicting objectives, not to mention employees who may be so worried about the changes that they look for workarounds, defeating the whole purpose. It's hard to change behavior, but it's necessary if you want to be successful.

Learn more

20 years inside the mind of the CEO... What's next?

Fit for Growth

Capabilities-driven IT: How financial-services firms can become more agile by bringing IT out of the back office

Capabilities-Driven Strategy explained

Strategy, not size, matters in innovation spend

"The current conversation is much less about 'how do I get on a diet' and more of 'how do I get the spend in the right place to get the most bang for the buck.'"

– Bruce Brodie
Managing Director,
Insurance Strategy

Figure 5: Cost containment continues to be high on the CEO agenda.

Global trends

Stronger than expected economic growth in 2017 bolstered profits, reduced unemployment, and helped slow gains by populist leaders. But financial institutions now face mounting risks from potential asset-price bubbles and a fast-approaching Brexit deadline. Most importantly, we see large financial firms focusing on scenario planning, as 2018 could be a volatile year. How can firms stay vigilant and nimble to seize opportunities and manage risks?

A look back

Upside surprise. Global economic growth beat many expectations in 2017. Global trade, investment, and industrial production rose, and growth hit an impressive 3.6%.[19] The US economy strengthened as well, expanding at a 2.2% pace.[20] Meanwhile, investors seeking yield bid up prices across asset classes, raising the risk of market instability. Elsewhere, China's GDP growth flattened, and the foundation for its boom remains shaky.[21] Beijing needs to rein in credit growth and curb rising property values. The world is watching, as China remains the biggest engine for global growth.[22]

Crumbs from the Fed. The Fed raised rates in 2017 and signaled more rate hikes to come in 2018. It also began paring its US$4.2 trillion balance sheet, a main tool for stimulus.[23] Albeit with slower timelines, there have been similar indications from both the Bank of England (BoE) and the European Central Bank (ECB). The unprecedented period of low interest rates seems to be at an end.

Populist movement gains momentum. The 2016 Brexit shock prompted concern that a new wave of populism would shake Europe. It didn't happen, but nationalist politicians gained in Germany, Austria, and elsewhere. This has raised concerns for global financial institutions that rely on free trade.

The road ahead

Firing on most cylinders. The International Monetary Fund forecasts global growth of 3.7% in 2018. However, significant downside risks remain from potential oil price increases, monetary policy tightening by the Fed and BoE, withdrawal of stimulus by the ECB, the burst of an asset price bubble, and geopolitical risks such as North Korea.[24]

Slow squeeze. The Fed will likely continue to slowly raise the benchmark interest rate over the next two years.[25] This may depend on new central bank leadership as key positions turn over. We expect the BoE to incrementally raise its main rate, and the ECB has indicated it intends to halt its purchases of securities late in 2018.[26]

Messy split and much yet to do. The UK is hurtling toward a March 2019 divorce from Europe, but UK leaders haven't even agreed on goals for negotiating future trading arrangements and transitional arrangements. It looks like UK-based financial firms *won't* gain "passporting rights" (the ability to operate in the EU with minimal additional authorization). Rather, UK-based institutions may function in the EU, after a transition period, under some less favorable form of "regulatory equivalence," much as other non-EU firms do. Look for strong pressure from Europe for the lucrative euro clearing business to move from the UK to an EU jurisdiction.

What to consider

You need a plan for everything. These days, we all have to monitor global events. If you operate in Europe, prepare for a "hard Brexit" and a lengthy disentanglement of the UK from the EU. In doing so, recognize that supervisors will focus more on firm governance and your ability to make timely, independent decisions in both the EU and UK. More broadly, it's time to think about how you plan and how you demonstrate your capability to do so. This type of cross-border, multi-variable problem will likely strain the governance structures of many firms. Consider your readiness to handle whatever arises and how you'll be ready to move quickly.

At home, prepare for the worst. With record asset valuations and soaring stock markets, pessimists are asking if this could be 2007 all over again. Institutions certainly learned a lot from the financial crisis, and balance sheets are the strongest they've been in a long time. But looming geopolitical risks and domestic political gridlock are big storm clouds on the horizon. Given the current tight labor market, some economists have predicted a 60% probability of a recession starting within the next two years.[27] Take this time to reexamine your downside scenarios because you may need to bolster your contingency plans.

Learn more

Life after 50: What Brexit means now for US financial institutions

Beyond Brexit podcast series

How will the Brexit negotiations work in practice?

The Five C's of Brexit

The World in 2050–The long view: how will the global economic order change by 2050?

The governance divide: boards and investors in a shifting world

Doing business in Asia Pacific 2017-18: Perspectives from CEOs

The €1 trillion challenge in European banking: How to wind down nonperforming and noncore assets

> ***"While progress is slower than they would have hoped, we do see that the administration is continuing to make the environment more favorable for financial services firms."***
>
> **– John Stadtler**
> *US Financial Services Industry Partner*

> ***"The reality is that many of the uncertainties that existed around Brexit a year ago are still here. In fact, they're probably more abundant now."***
>
> **– Bill Lewis**
> *Global Financial Services Risk and Regulatory Co-Leader*

Figure 6: Financial services CEOs are focusing on global risks to growth.

Deals

This is an exciting deal market for both buyers and sellers, but there's also a lot of uncertainty. The sector is awash in capital ready to be deployed, with buyers—ranging from nimble private equity firms to sovereign wealth funds to large US financial institutions—lining up for a limited number of high-priced opportunities. We expect the robust market to continue as firms look to acquire new technology, augment their teams, change business models to compete, and control compliance costs.

A look back

Suitors seek insurers. In 2017, dealmakers in the financial services industry sought opportunities to achieve scale by consolidating insurance companies. Capital flowed into the sector from private equity and pension funds in the US, as well as from foreign buyers.

Bank executives are cautious, and with good reason. Community bankers were active in 2017. In 3Q17, for example, bank deals under US$250 million were 79% of all transactions as firms sought to control compliance costs and expand.[28, 29] But the sector as a whole saw one of its lowest deal levels in a decade. While capital was available, there was also a lot of uncertainty about regulation, taxes, and interest rates. Since the stock market soared, deals have become more expensive, making potential acquisitions riskier. Without a compelling reason for a transaction, many executives took a wait-and-see approach.

Redefining deals. Among wealth management firms, deal activity hit a record level in 2017, while asset management deal flow remained slow.[30] Not all deals followed the same playbook. Private equity firms and asset managers made a number of visible minority investments as they looked to balance risk and return. Some firms poached entire groups of portfolio managers from rivals.

The road ahead

Watch Uncle Sam. We expect deals to pick up in 2018 in response to tax reform and softening regulation. In particular, we anticipate more M&A activity among small- to medium-size publicly traded insurance companies. One proposal would raise the capital threshold for designating a bank as a systemically important financial institution (SIFI). If approved, we may go from 38 SIFI banks to 12, potentially reviving the anemic mega-deal market.[31]

Busy year ahead. In 2018, look for firms to shed underperforming and non-core lines of business. We expect to see more consolidation of mid-tier banks as they redefine their business models through digital transformation. Beyond banks, we could see continued interest in alternative asset managers and FinTech startups. Property and casualty insurers may be vulnerable following the wildfires and hurricanes in 2017.

The serial acquirer. Could 2018 be the year of the roll-up? We've seen a number of financial firms in the marketplace doing multiple deals, particularly in the asset and wealth management space. Many of these will likely be minority investments, both from firms looking for ways to keep their options open and from firms prohibited from making outright acquisitions.

What to consider

Buyer beware! As a buyer, you may be tempted to relax due diligence and rush forward, especially in the hot market for insurers and small banks. Don't. Search for companies to acquire only *after* you've crafted a detailed strategy and a clear rationale for expansion.

Swipe left. Firms hoping to be acquired have multiple options these days as liquidity flows toward the most attractive opportunities in asset management, insurance, and banking. Sellers may think about outright acquisitions or IPOs. But they should think seriously about suitors from a range of sources, including private equity, sovereign wealth funds, and family offices.

One step ahead. Buyers are thinking about who they'll compete against two years from now—and if they're not, they should. Firms are looking to add technology, hire people with specific skills, and drastically change business models. In this setting, make sure that your long-term strategy is crystal clear. Also, update your due-diligence steps. If you want a specific RegTech capability, for example, look beyond the numbers. Make sure the company you're targeting aligns with your business strategy and organizational culture, and that it would contribute your bottom line.

Learn more

Getting on with business in today's dealscape

Deals industry insights: From PwC Deals

New Deal Frontier: M&A is the new trade

Halfway through 2017: With no dramatic shifts, deals on track for a steady year

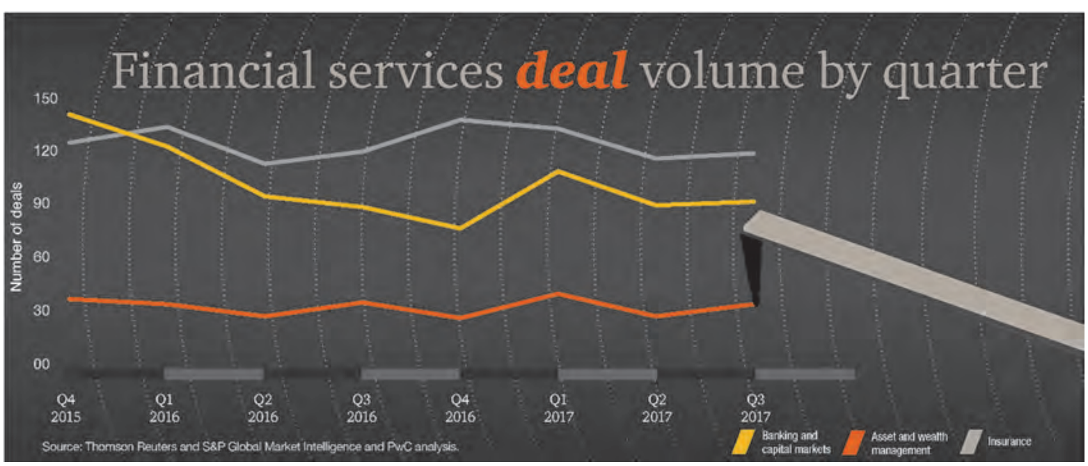
The new corporate M&A environment: Uncertain, unfazed and uncharted

With fewer big splashes, dealmakers turn the middle market spigot

New Deal Frontier

> ***"Regulators are finally comfortable with banks starting to talk to each other about transactions. There's a need for streamlining. So in the middle market especially—including regional banks—there's got to be more consolidation."***
>
> **– Greg Peterson**
>
> *US Financial Services Deals Leader*

Figure 7: Overall quarterly deal volume has held steady but will likely grow in 2018.



People

Many financial institutions underplay the importance of their people strategy. And yet workforce issues were central to many of the negative headlines in 2017. For an industry that sells trust, this isn't something that can be swept under the rug. In 2018, financial institutions will likely face more challenges as they wrestle with diversity, trust, and how to integrate artificial intelligence and digital labor alongside their existing workers.

A look back

Culture under the microscope. Is it fair to hold firms responsible for ethical behavior? This was certainly a theme during 2017 in the financial services industry, with a spotlight on sales practices, gender issues, transparency, and other issues. As firms look closely at corporate culture, they're examining compensation and ethics programs in an attempt to restore consumer trust. There's a lot of work left to do.

The bots are coming! Employees began seeing bots take over some daily tasks—and it made many of them nervous. In 2017, we surveyed roughly 10,000 individuals for views on the workforce of the future; 37% said they're worried about automation putting jobs at risk.[32] Few executives were thinking about the effect of automation on their human workers.

All talk? Many financial institutions made commitments in 2017 to step up workforce diversity, but it's unclear if they delivered on their promises. While diversity and inclusion is a stated value or priority area for 88% of organizations, 44% of respondents in our survey still feel diversity is a barrier to employee progression.[33] With a few exceptions, little has been accomplished by financial firms in substantive areas such as pay equity, C-suite structure, and board composition.

The road ahead

Diversity on the agenda. Given the politicized environment (and that 2018 is an election year), look for more conversations about diversity. Demographic trends continue to point toward a more diverse workforce, but diversity alone does not mean equity. We expect a few industry executives to *truly* embrace efforts to drive diversity, doubling down to close gaps in senior leadership positions, recruiting, pay, and other areas.

Why should we believe you? There's broad skepticism in today's society about large institutions. For the financial services industry, already struggling with a wary public, this is a big challenge. Meanwhile, millennials want more than a paycheck; they want to work for and buy from companies they trust. With the rise of new competitors, firms will likely start to revisit what they offer clients *and* employees.

Culture clash. Financial institutions have invested a lot in human resource management systems (HRMS), but adoption has been woefully low. Deploying technology isn't enough to change behavior. Firms will need to change culture if they want their HRMS investments to pay off. In 2018, we expect to see changes in incentives to drive real adoption and use of these tools.

What to consider

Glass houses. You want to be, and be known as, a firm that *truly* values diversity. Think about more than gender, age, race, and other protected classes—add variations in perspectives, experience, and more. Measure your efforts along the way and be transparent with what you've found and where you're going. Reflect your values in everything you do from recruiting to board composition.

Good corporate citizen. Many firms locate back-office operations in relatively small communities that have few other employers. Keep in mind that your institution has a profound effect on these communities when hiring, training, transitioning workers to new tasks or roles, or laying off employees. You will face hard decisions when local areas depend heavily on your business presence. Choose wisely.

What workers want. Younger generations are less interested in a job just to pay the bills. They generally want opportunities such as global mobility, flexible small teams, and the ability to be creative. They also value candid coaching discussions about career paths. Train people who supervise these employees so you create the right work atmosphere for everyone to thrive.

Learn more

The power to perform: Human capital 2020 and beyond

Key talent findings in the financial services industry

Workforce of the future: The competing forces shaping 2030

We, robot: Solving the RPA/human capital puzzle in financial services

Gaining an edge in the competition for talent: Inclusive recruitment in financial services survey

> ***"As financial institutions' business models evolve, they're really going to have to think differently, and that means hiring and developing people with vastly different skills and views."***
>
> **– Bhushan Sethi**
> *US Financial Services People and Organization Practice Leader*

Figure 8: Diversity could be a key differentiator for financial firms in 2018.

Cybersecurity

Criminals target financial firms because that's where the money is. Cybercrime hasn't changed this, but it has ramped up the speed and the consequences. Firms should balance being open with being secure. As attacks increase and regulators take closer notice, the pressure to act mounts. By recognizing that hackers will find vulnerabilities, leaders can improve the way they design and deliver services, manage risks, and train their teams.

A look back

Bad to worse. Cyberattacks against financial services and other sectors have grown in number, size, and sophistication. Hackers have struck at the heart of US finance, with revelations in 2017 of significant breaches at the Securities and Exchange Commission and elsewhere.[34] Fraud incidents, both online and offline, increased by more than 130% during the past year, resulting in significant monetary and reputational losses for financial institutions.[35] Meanwhile, cyberextortionists did more damage, as Petya and WannaCry ransomware blocked access to hundreds of thousands of computers around the world. Playing defense is harder than ever.

Target-rich environment. The number and range of vulnerabilities is growing as companies outsource internal processes, shift computing to the cloud, and connect to customers through more channels. While financial firms certainly benefit from digital networking, this also enlarges their "attack surface" exposed to hacking. With more than eight billion connected "things" in 2017, there are now more networked endpoints in the world than there are people.[36]

The state steps in. Failures in cybersecurity have prompted data privacy legislation in more than 40 US states. In 2017, New York State regulators passed new rules requiring institutions to create detailed programs to protect consumer data and ensure employees are trained to identify threats.[37]

The road ahead

We don't "like" this. Social engineering has long been a favorite method for fraudsters, and criminals continue to adapt. Look for phishing to migrate more aggressively toward social media to lure gullible users to download and run malware. Other new techniques could emerge, possibly modeled on hacking tools that cyberintruders stole from the US National Security Agency (NSA).[38]

The threat within. Cybercrime isn't just a networking problem. It includes a rise in crime from internal sources such as insider trading, theft, and cybervandalism. And it's not just full-timers. When firms onboard contractors and temporary workers, they may be handing over more than just a security badge.[39] Expect a greater focus on internal risk analysis, both to protect against nefarious behavior and to identify workers who may have been unknowingly compromised.

More with less. A talent shortage in cybersecurity is likely to spur financial companies to find efficiency through the adoption of artificial intelligence, which can quickly comb mountains of data to identify patterns of wrongdoing. Firms are also likely to free up employees for cybersecurity by enlisting robotic process automation (RPA) to do repetitive tasks. But this can also introduce new vulnerabilities, and firms will focus more on protecting these new tools in 2018.

What to consider

Not if, but when. There are two kinds of financial services firms: those that have faced a cyberattack and those that will. For one thing, that means building defenses that are comprehensive and resilient. Good "cybersecurity hygiene" also means employee training and regular reviews of authentication and security controls. To promote resilience, run cyberintrusion drills. Prepare for how you'll respond, just as you do for other disasters. This will help you limit damage and speed recovery.

From the crown down. A cybersecurity strategy needs the full involvement and support from the C-suite and board. Senior leaders don't always fully understand some of the risks the firm has taken on, whether explicit or implicit—but you should. Make sure that your business plan has a cybersecurity component. It's not complete without one.

More than a tech problem. Constructing a tech firewall is just the first line of defense. The second is weaving strong cybersecurity controls into the entire risk management structure. So, prioritize data based on its sensitivity, quickly identifying and eliminating any vulnerabilities. Start by assuming that your users are *already* compromised. This will force you to build systems with privacy and protection in mind from the start. Treat cyberprotection like the business risk issue it is.

Learn more

Strengthening digital society against cyber shocks

Consumer Intelligence Series: Protect.me

Webcast: New requirements, new cybersecurity and privacy programs

Cybersecurity after WannaCry: How to Resist Future Attacks

Women in Cybersecurity: Underrepresented, untapped potential

Uncovering the potential of the Internet of Things

Cyber and fraud: How to mitigate and prevent the next data breach

Fraud governance: It's more than just compliance

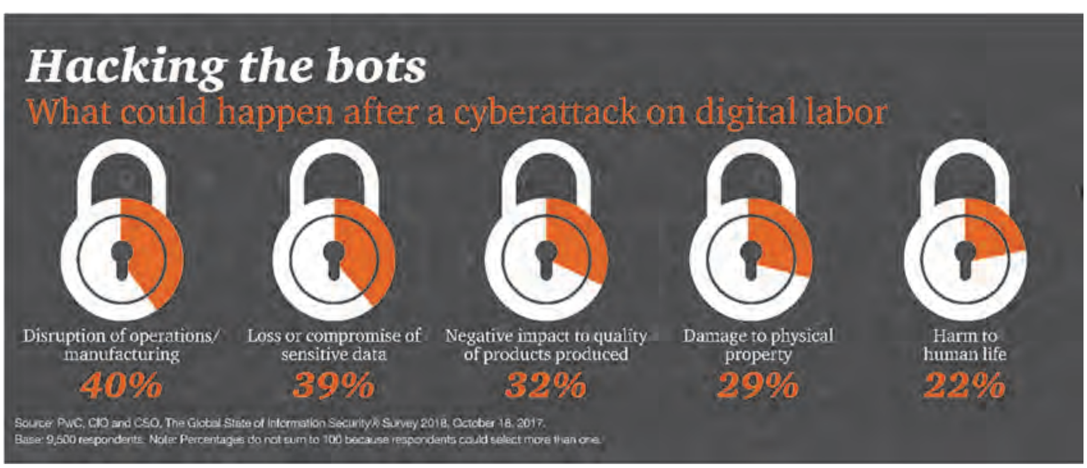
Transforming financial crime investigations through automation

Cyber: New approach from New York regulator

"Cybersecurity has to be something that's ingrained into the way people think about new business opportunities and capabilities. It can't be just something that the technology guys are going to fix."

– Joe Nocera
US Financial Services Cybersecurity Leader

Figure 9: Automation tools pose new risks for cybersecurity in financial services.



Regulatory easing

In 2017, President Donald Trump pledged to shake up post-crisis regulation with moves that included an overhaul of the Dodd-Frank Act. Though that hasn't happened, leaders of the agencies that oversee financial services have started to streamline some of the rules enacted following the 2008-2009 financial crisis. The upshot: A regulatory landscape that is much more favorable to financial services firms is slowly emerging.

A look back

Changing referees. In 2017, the Trump administration began its financial services regulatory reform efforts by making appointments to the heads of federal regulatory agencies. It has taken a while, but new leaders are in place at most agencies. Much of Trump's wish list can be directly enacted by these agencies.

Review and relaxation. Regulators announced reviews and made changes during 2017 through targeted guidance:

- For banks below US$250 billion in assets, regulators will no longer object to a firm's capital plans based on "qualitative deficiencies."[40]
- The agencies overseeing the Volcker rule, which limits a firm's proprietary trading, will conduct a review of its provisions.[41]
- The Department of Labor delayed implementation of its fiduciary rule, a key change for the asset management industry, and it is still considering further actions.[42]
- The number and dollar amount of penalties levied by the Securities and Exchange Commission (SEC) fell to a four-year low.[43]

International Financial Reporting Standards (IFRS) 17. A global accounting board in 2017 set standards for insurance contracts.[44] The framework could prompt firms to redesign products and incentive policies, and it may alter forecasting and business planning.

The road ahead

Enduring legacy. Trump has had an unusual opportunity to make appointments that will likely leave a lasting regulatory mark. There are still several key positions to fill at the Fed, the Federal Deposit Insurance Corporation (FDIC), and the Consumer Financial Protection Bureau (CFPB). In 2018, we'll see these appointees start to put their own stamp on the regulatory environment. For what this might look like, see the Treasury Department reports: a series of proposals on financial deregulation.[45, 46]

Election distraction. We expect only modest bills to pass in 2018 as lawmakers focus on midterm elections. There may well be some easing of the Dodd-Frank rules, such as raising the threshold for designating a firm as a systemically important financial institution (SIFI). Smaller banks will likely see the bulk of any additional regulatory relief.

Make it simple. In 2018, the Commodity Futures Trading Commission (CFTC) will continue its review of the swaps reporting rules, which we expect to lead to more simplified reporting. Similarly, we expect the SEC to concentrate its enforcement efforts around big moves rather than small hits. In both cases, regulators are providing more clarity as to where firms should focus their regulatory resources.

What to consider

Greener pastures. Following the financial crisis, many financial institutions strengthened their compliance programs in a rush to meet regulator mandates and avoid fines and sanctions. As regulatory pressure eases, consider how you might make your compliance investments more efficient, particularly given new advances in RegTech, automation, and machine learning. These innovations reach into areas from loan origination to monitoring against fraud, insider trading, and money laundering.

A few exceptions: IFRS 17, CECL, and cybersecurity. While many firms may be breathing easier, regulators are paying more attention in a few areas. Insurers should fully understand the changes and put an IFRS 17 plan together quickly. The SEC has made it clear that robo-advisers are subject to the same regulatory framework as traditional advisers. You'll want to review investment models, disclosures, and compliance programs. The Financial Accounting Standards Board's (FASB's) new credit losses standard, the current expected credit loss (CECL) model, may present implementation challenges. You'll need to think through changes that may be necessary to your processes, systems, and controls in order to implement the CECL model, as well as governance and controls.[47] Cybersecurity is also under the microscope in every industry, with the stakes much higher in financial services. Make sure you have a detailed, tested plan to defend against—and respond to—cyberthreats.

Learn more

Amendments to IFRS 9: Prepayment Features with Negative Compensation and modifications of financial liabilities

Regulatory agency appointments outlook

Our take: PwC's financial services update

Get ready for RegTech

Five key points from the Fed's new board expectations guidance

Cyber and fraud: How to mitigate and prevent the next data breach

Volcker Rule: Under review until further notice

Trump's first 100 days

A changing policy agenda

The wait is nearly over? IFRS 17 is coming, are you prepared for it?

IFRS 17 marks a new epoch for insurance contract accounting

Sanctions: All bark, less bite?

DOL's fiduciary rule announcement and FAQs

Five key points from the Fed's 2017 CCAR

Five key points from the Fed's 2017 DFAST

Robo-advisers: SEC steps up scrutiny

Swap data reporting: What comes next?

Preparing for the new credit loss model

"Trump has been able to remake the financial services agencies and in 2018 he'll have the ability to almost completely remake the Fed's Board of Governors."

– Michael Alix
US Financial Services Advisory Risk Leader

"We're hearing a new tune on oversight from this administration and seeing regulatory pressure ease. Now, firms can look at how they can use emerging technologies to comply with existing requirements at a lower cost."

– Adam Gilbert
US Financial Services Advisory Regulatory Leader

RegTech

For nearly a decade, financial institutions have been making only limited headway in cutting the cost of complying with increasing post-crisis regulation. That may be changing. RegTech startups use emerging technology to help firms address risk and regulatory challenges. From speeding loan origination to sharpening surveillance against fraud, money laundering, and insider trading, financial institutions now look to RegTech to improve efficiency and lower risks.

A look back

RegTech goes mainstream. RegTech has grown rapidly, and it's no longer reserved for the early adopters. With more than 250 providers, it has become a mainstream resource. In 2017, we saw firms move from proof-of-concept projects toward broader scale adoption. In particular, firms have spent heavily on tools for market abuse surveillance and regulatory affairs management.

New tools for oversight. Many regulators view RegTech as a way to strengthen oversight by highlighting threats to market stability. In 2017, the US Commodity Futures Trading Commission (CFTC), launched LabCFTC to spark innovations improving the "quality, resiliency, and competitiveness" of markets.[48] And, the Office of the Comptroller of the Currency (OCC) now has a team working on innovation and reviewing issues related to granting national bank charters to FinTech companies.[49] We also saw infrastructure providers such as securities exchanges buy (or partner with) RegTech firms.

Big potential lures big players. Several large financial firms have created venture capital teams to invest in RegTech and promote internal adoption of the innovations. These groups were quite active in 2017, and their share of the total capital channeled to RegTech has steadily grown. It's a stamp of approval that bodes well for widespread adoption of the technology.

The road ahead

Gathering speed. We expect RegTech adoption to accelerate in 2018. Look for continued interest in areas such as financial crime surveillance (identifying bad actors), consumer compliance, scenario modeling, and enterprise risk management. Regulators see the technology's potential to reduce systemic risk and improve financial stability. And while they're unlikely to endorse specific technologies or common standards, look for them to allow firms to test and learn, and then assess how RegTech is being used.

Huddle up. We anticipate consolidation of and new partnerships among RegTech companies in 2018. Financial industry buyers generally want integrated offerings with advanced customer support, but most RegTech startups currently offer narrowly focused solutions.

Regulators on the bandwagon. We expect financial regulators in 2018 to expand their own use of RegTech. Emerging technologies like robotic process automation can help agencies process filings more efficiently. Artificial intelligence can be used to help identify misconduct and insider trading. This is especially important given the obvious resource constraints.

What to consider

Pilot, pilot, pilot. It's tempting to direct your compliance team to just "plug in" a RegTech solution. Don't. Instead, explore a few spots where you think RegTech will pay off, can be deployed quickly, and where new risks are unlikely. Choose a specific use case to address. One area to consider? Technology that improves workflow in regulatory reporting.

Know the roadblocks. Many issues can derail a RegTech integration, whether it's outdated technology, uncertainty over alignment with existing regulations, or passive resistance from staff. Your team working on a corrective action plan with a tight deadline, for example, won't be open to conversations about process enhancements. Be aware of the resistance and obstacles you'll face, create an open dialogue, and work toward a common goal.

Act, don't react. Financial firms are finally finding room to breathe after a decade of new regulations, but don't expect the break to last. From the top down, pressure is building to deliver cost savings and reduce risks further by using technology. Executives also expect that insights gathered from compliance will help other areas of the business, and this requires a completely different mindset. Use RegTech strategically. It can address these needs and others.

Learn more

State of Compliance 2016 key findings Industry highlights

Value creation: The emerging power of policies and procedures

Get ready for RegTech

The changing landscape: How to use RegTech and make regulatory compliance your strategic advantage

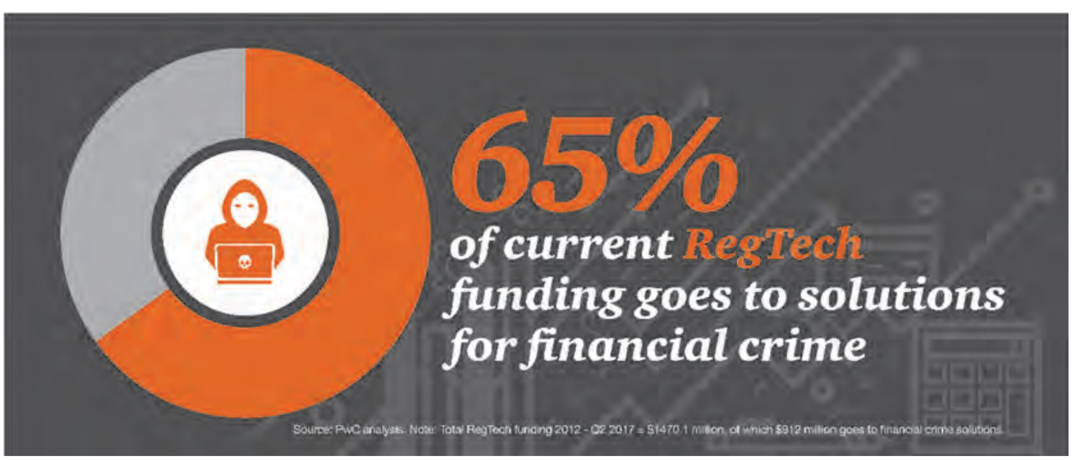
RegTech: The financial industry's new best friend?

"RegTech isn't just adding technology to existing processes. It can change the way you think about regulatory compliance. Once you understand its transformative potential, you may find ways to create a competitive advantage."

– David Choi

US RegTech Leader

Figure 10: Financial firms are turning to RegTech to tackle compliance and risk.



Tax planning

It's been three decades since the US last saw successful, meaningful tax reform, but the long wait is now over. The Tax Reform Act of 1986 simplified the tax code, wiped out tax shelters, and broadened the tax base. It was a masterful achievement of revenue neutrality and bipartisanship. The 2017 tax overhaul was decidedly more one-sided, and it comes with a 10-year price tag of nearly US$1.5 trillion, excluding higher economic growth.[50] It's complex, but firms may find a lot to like in the final law.

A look back

A perfect storm. Financial institutions experienced a "perfect storm" in 2017, with shifting proposals for US tax reform, Brexit starting to unfold in the UK and Europe, and a new administration in charge of administering regulations in the US. After designing tax-efficient strategies for an existing set of rules, many firms suddenly found that they needed a "Plan B."

Reforms and cuts. President Trump signed into law the first major tax reform bill in the US in decades. Some key features: lowering the corporate tax rate from 35% to 21%, removing the corporate alternative minimum income tax, and changing from global to a territorial tax system. Other key provisions include the structure around the one-time repatriation of earnings back into the US and limiting business interest expense deductions.

Freeze! As details of the new law emerged, tax practitioners in most US financial institutions raced to deal with year-end issues. For firms with international operations, this included new treatment of 'global intangible low-taxed income' (GILTI) and a 'base erosion and anti-avoidance tax' (BEAT). Some firms issued updated earnings guidance, as deferred tax assets are written down. We also saw some companies announce additional bonus payments in response to tax reform.

The road ahead

Start with a clean sheet. Many firms could find that they need to make sweeping changes to their financial reporting in the wake of the new law. This will likely mean a continuation of work that started in December, with a push to revalue deferred assets and liabilities. And, the push to update quarterly earnings forecasts will almost certainly broaden, reflecting a new effective tax rate, the revaluations, BEAT and GILTI, and more.

Into the weeds. Tax departments across asset management, insurance, and banking will start poring over the details. For example, insurers need to change how they measure reserves for both life and non-life insurance, and how they capitalize the expense for acquisition of some types of policies. Also, banks with assets between US$10 billion and $50 billion face a phase out of deductions for premiums paid to the Federal Deposit Insurance Corporation.

Managing costs. The wrangling over taxation in 2017 highlighted pressures building for years among tax functions across financial services. In 2018, we'll see firms looking at how to reduce costs and complexity, address talent gaps, move teams from reporting to higher-value strategic work, and more.

What to consider

What's the plan? To comply with the law, firms will need a lot of granular data, and many could struggle. Just to evaluate if they're subject to BEAT or GILTI tax treatment, firms will need transaction-level data. The new tax law could lead to revisions to funding models and the way earnings are booked. It could even lead to structural changes in how entities are organized. We encourage firms to develop a comprehensive, end-to-end workplan around adapting to the changes. The good news: this is likely to support digital transformation efforts, too.

Let's make a deal. The new tax law could have key implications for those acquiring or divesting businesses. Business interest expense deductions will now be generally capped, and this could raise the after-tax cost of debt. There will be new treatment of net operating losses and provisions that will affect specific sectors, such as insurers and mortgage issuers. This and more may lead to revised valuations for deals in process.

Change outside, change inside. With all the changes, there's an opportunity for insurers, asset managers, and banks to reconsider how they approach their internal tax operations. In the face of rising complexity, firms are increasingly asking if their processes, technology, and staff are up to the task. You may want to consider how a variable cost model could help you retain advanced capabilities while managing costs.

Learn more

Congress gives final approval to tax reform conference committee agreement

Tax reform legislation signed into law in 2017

Tax reform readiness and 2018 outlook on the banking & capital markets sector

What dealmakers need to know about tax reform

Congressional tax reform proposals' impact on Private Equity

Tax Reform Bill: Implications for the Real Estate Industry

Recent developments provide guidance on tax accounting issues

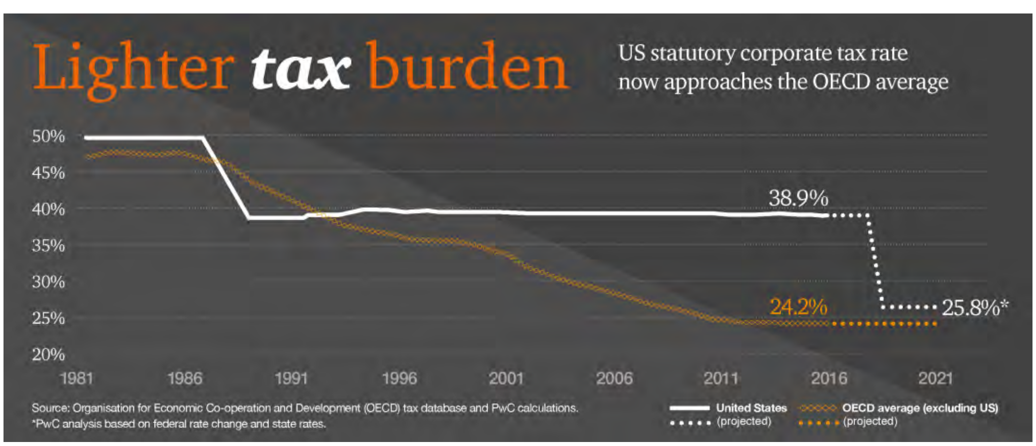
Doing business in the United States (2017-2018 edition)

Brexit–income tax accounting implications

Inside Tax Policy: Watch policy unfold.

> *"Tax reform will likely be seismic for many of our clients. Of course, there are issues with deductibility that could be game-changers. But they're looking inward, too. How effective are* ***their own tax functions?"***
>
> – Gina Biondo
>
> *US Tax Financial Services Leader*

Figure 11: US corporations face higher statutory tax rates than global competitors.



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