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/ 10<sup>th</sup> ANNIVERSARY

# / THE NEXT TEN YEARS OF FINANCE

## Insights from Robert K. Steel

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AT PERELLA WEINBERG PARTNERS, we believe insights drive markets. On the occasion of our 10th Anniversary, we are looking ahead to the “next ten years.” Coming editions of PWP Insights will reflect on some of the themes and trends that have defined the global economy over the life of our firm and contemplate what might unfold in the years ahead. In this edition, PWP CEO Robert K. Steel offers his insights into the “next ten years” of the financial services industry.

## The financial crisis set in motion significant changes to the financial system

The financial services industry has undergone a radical transformation in the years since the crisis.

- 1. Today the system is safer.** Banks are better capitalized today, making the system more resilient, and each year our largest financial institutions are subject to the Fed's annual "stress test," measuring their ability to withstand another downturn.
- 2. Today the system is more transparent.** The Dodd-Frank Act – by far the most sweeping financial regulation I've seen during my four decades in the industry – has ushered in a new era of transparency. Today, roughly 75% of interest rate derivatives in the U.S. are traded openly – compared to only about 15% in 2007.
- 3. Today the system is more competitive.** As large financial institutions have reduced the breadth of their operations in recent years, new entrants have begun to capture and complete deals that were once guaranteed to large institutions, driving an unprecedented level of competition. For example, independent, specialized investment banks are now leading blockbuster deals that were previously the exclusive domain of large institutions.

## Over the next decade the pace of change will accelerate

While we have witnessed dramatic change in recent years, we are still in the early innings of larger changes to come. Here are a few predictions on how the financial industry will evolve over the next ten years:

- 1. Large banks are not going away.** They will continue to be important but will face more competition. A globalized world needs large, well-capitalized institutions. Banks with large balance sheets can make investments in new markets. They are better equipped to navigate foreign bureaucracies and challenge trade barriers. And, of course, they are best positioned to help finance the largest projects around the world. However, smaller, more focused financial firms will continue to grow and compete with large banks for business.
- 2. Technology will be a core disruptor.** The digital revolution will substantially change traditional business models and bring fresh perspectives to every corner of the financial sector. Technology has already changed the way many people access financial products, as people increasingly go to their smart phone – rather than a bank – to request loans, transfer money, make a payment, open an account or invest money. But what we've seen so far is only the beginning. The "fintech" segment of financial services will continue to grow, while more traditional institutions will increasingly adopt new ideas and technologies to remain competitive.

- 3. Many lending businesses will shift from bank balance sheets to asset management products.** This trend is already underway and will accelerate in the years ahead. With large institutions facing business model and regulatory uncertainty, many have decided independently to scale back the breadth of their operations and focus on core competencies. Some of these activities are reorganized into smaller, specialized new businesses or asset management products.
- 4. The distinction between publicly-traded and private companies will become increasingly blurred.** While U.S. capital markets will remain robust, there will continue to be many new sources and methods of raising capital. In 2015, 216 U.S. based private companies had revenues of \$2bn or more. This number will be even higher ten years from now.
- 5. ESG / Impact Investing is not just a fad.** Rather, it will become something every supplier and user of capital must consider. Over the next decade, allocators of capital will drive companies to adjust accounting practices to better measure and report their environmental impact. This will transform the entire corporate world, not just financial services.

## A transforming industry requires a completely new policy outlook

Today's financial system is vastly different than it was prior to the crisis and the pace of change will accelerate in the next ten years. That means public policy will have to adapt. Our goals should be:

- 1. An agile, responsive regulatory system that safeguards our economy, but also understands the role that risk plays in promoting growth.** Without some element of risk, many small businesses could not raise capital and most households would not have access to credit to finance an education or purchase a house. Our economy would grind to a halt. Our regulatory system must be nimble enough to encourage productive risk, while safeguarding against systemic risk.
- 2. Balancing consumer protection and vigorous financial markets.** Consumer trust is absolutely essential to functioning financial markets, but regulation of business practices and consumer protection should not be allowed to unnecessarily stifle access to capital, which promotes new business formation and existing business expansion.
- 3. Supporting innovation and competition within financial services.** A strong, competitive financial system is critical to creating a strong economy that offers more opportunity to Americans. Chilling the development of new financial services and products hurts consumers and inhibits growth.

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