

# Banking in the Current Environment

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RSM US LLP



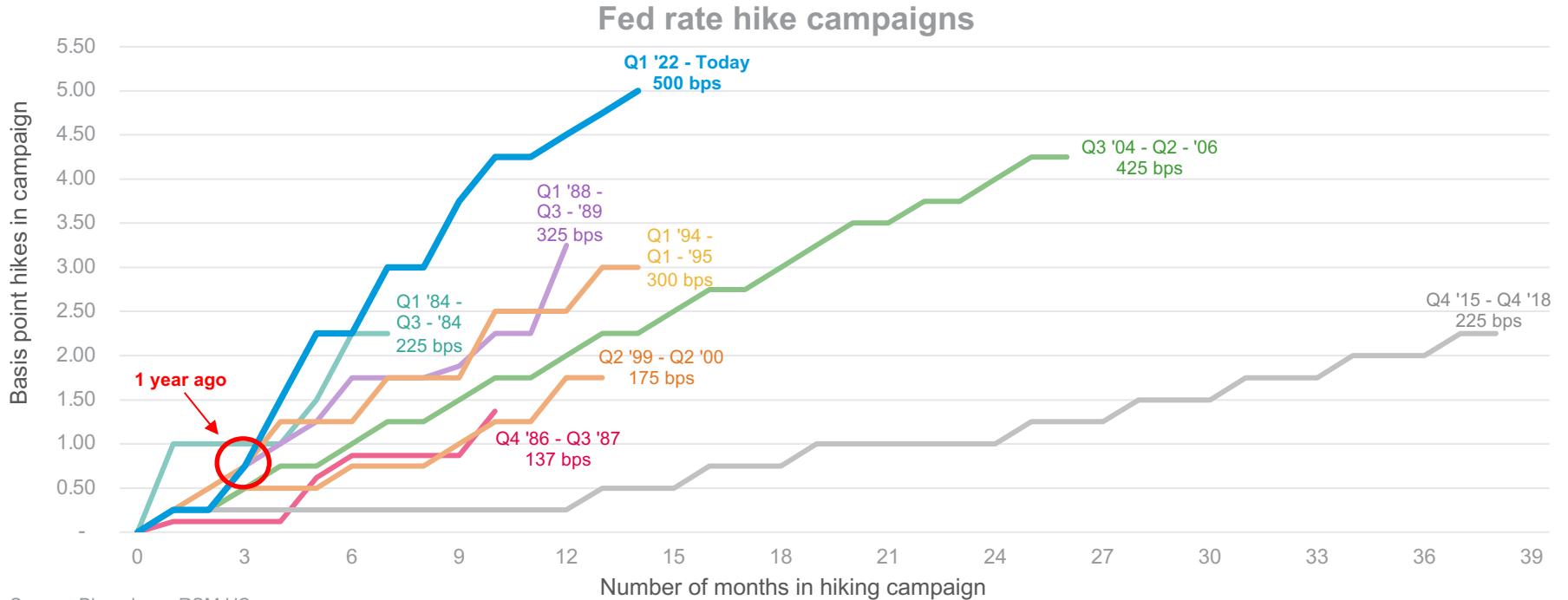


# BANKING IN THE CURRENT ENVIRONMENT

Bank Director Bank Audit & Risk Conference

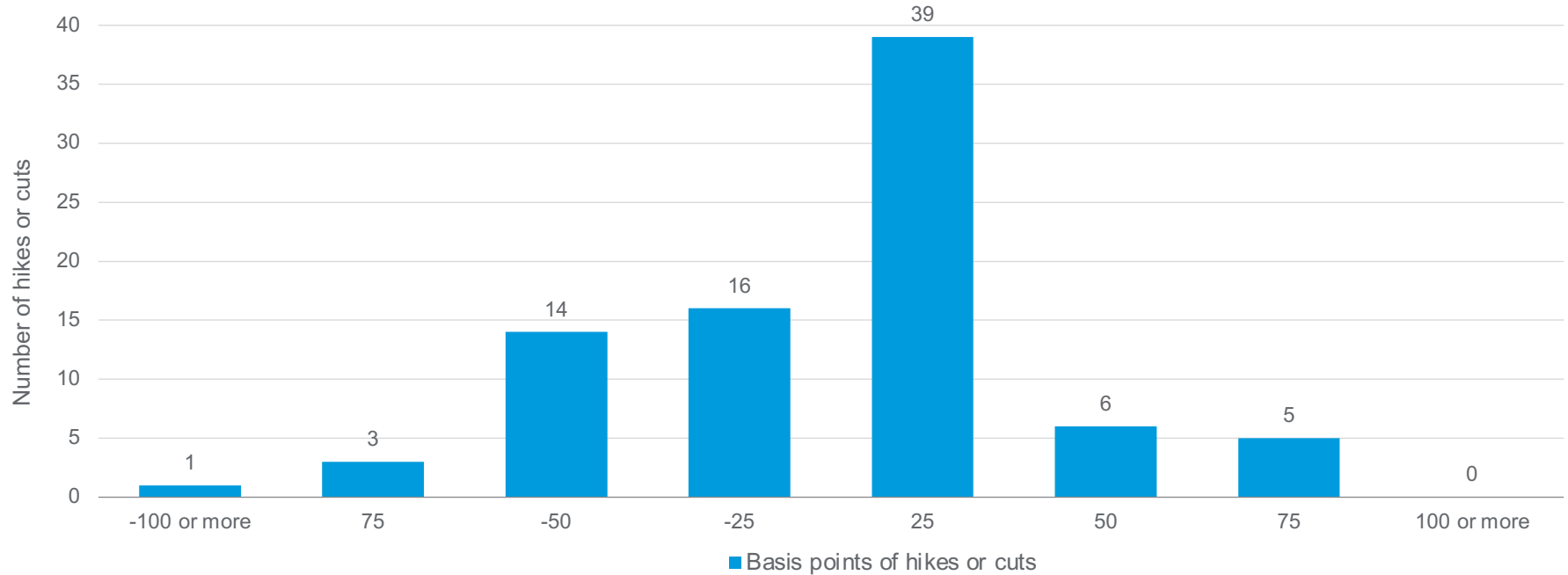


# Meteoric rise in short term rates



Source: Bloomberg; RSM US

# Size of Fed rate hikes or cuts over the past 30 years



Source: RSM US

## Poll Everywhere

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Text **RSM23** to **22333** to join the session and text your answer.



Poll Tip: If submitting multiple words, use a **hyphen**. For example, **interest-rates**.

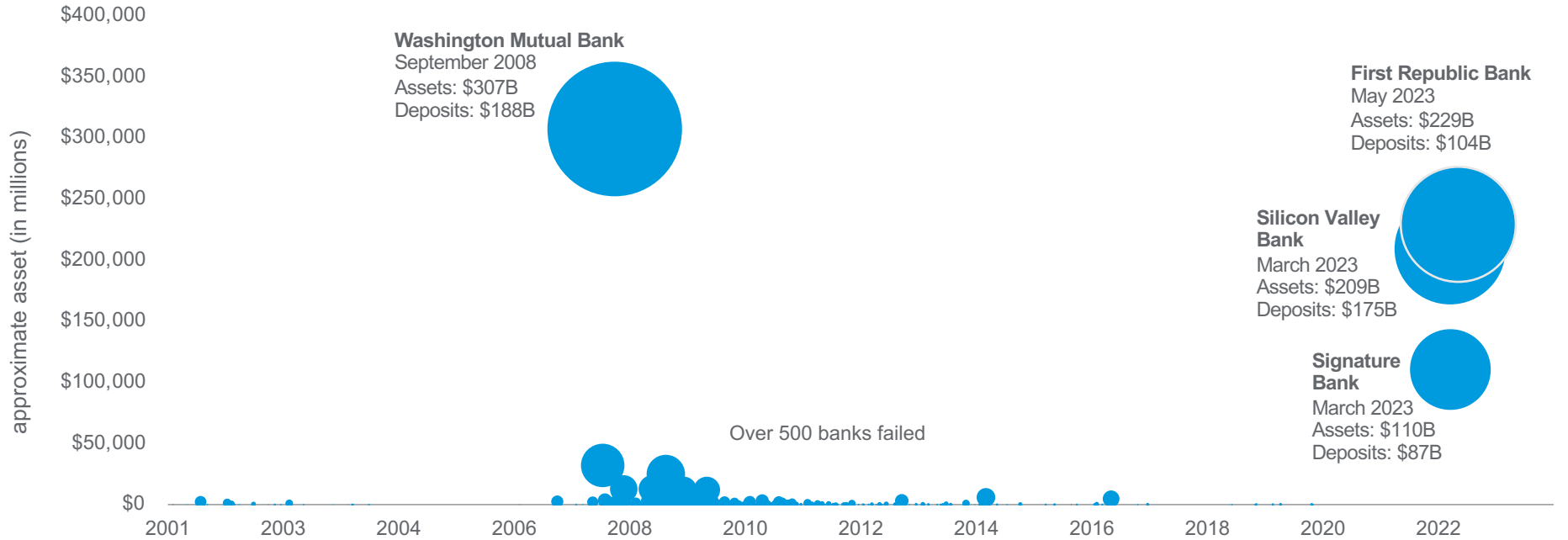
Text RSM23 to 22333 once to join

# Did you see the Fed raising rates 500 basis points in the current rate hiking cycle?

Yes

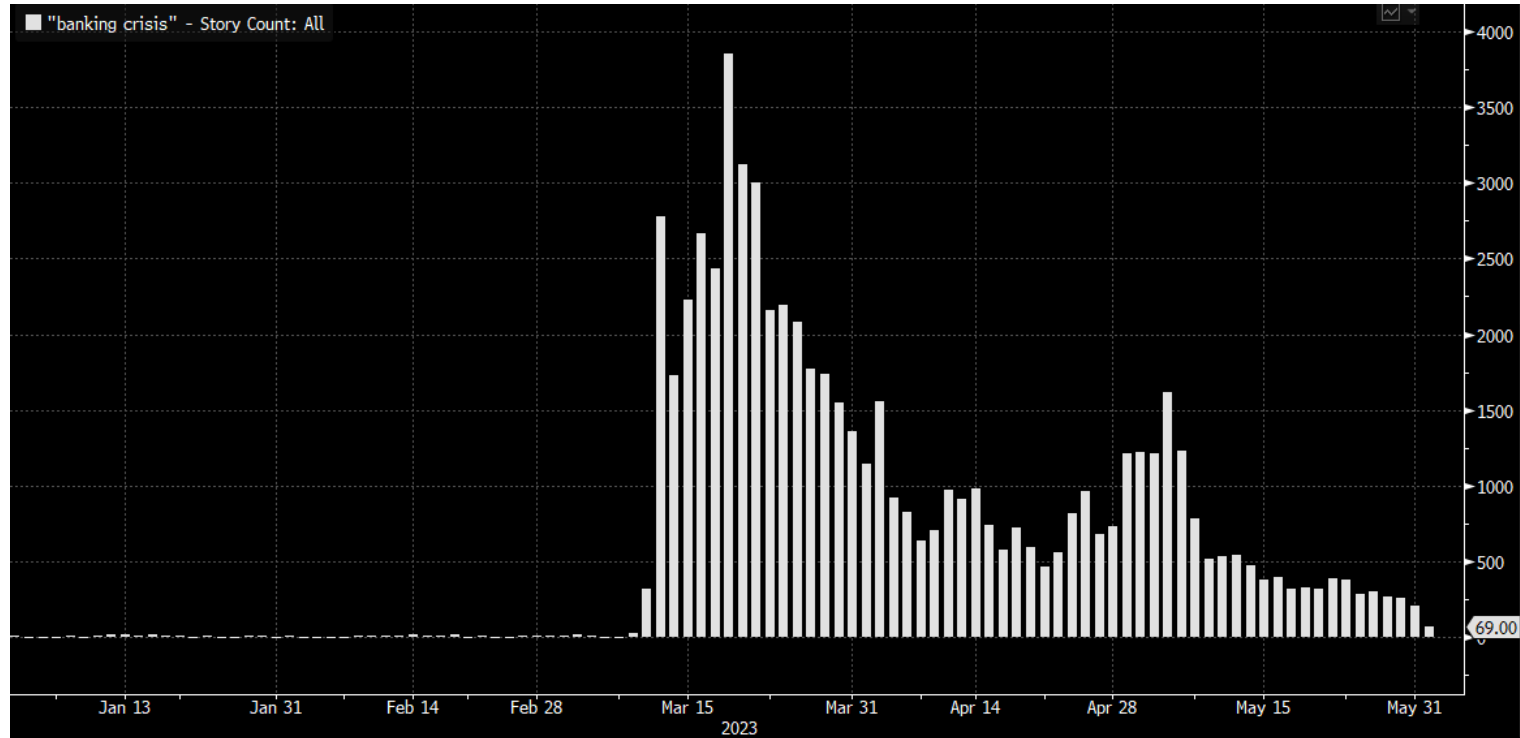
No

# Bank failures feeding “crisis” narrative



Source: FDIC, RSM US LLP

# News trend analysis: "banking crisis"





# The U.S. economy will experience a recession...

Within the next 6 months

In 6 – 12 months

In 12 – 18 months

The U.S. is already in a recession

The U.S. will avoid a recession

# US economy: A slowdown, stubborn inflation and increasing headwinds



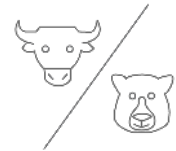
## US economic growth outlook: slowdown is underway

- Continued economic growth below long-term trend between 1.5% and 1.8%
- Easy money era is over as low to no-interest rates are gone
- Growth in real wages as inflation moderates; wages will not “reset” to pre-pandemic levels
- Productivity is key as labor force growth stalls



## US inflation outlook: risk around stubborn inflation

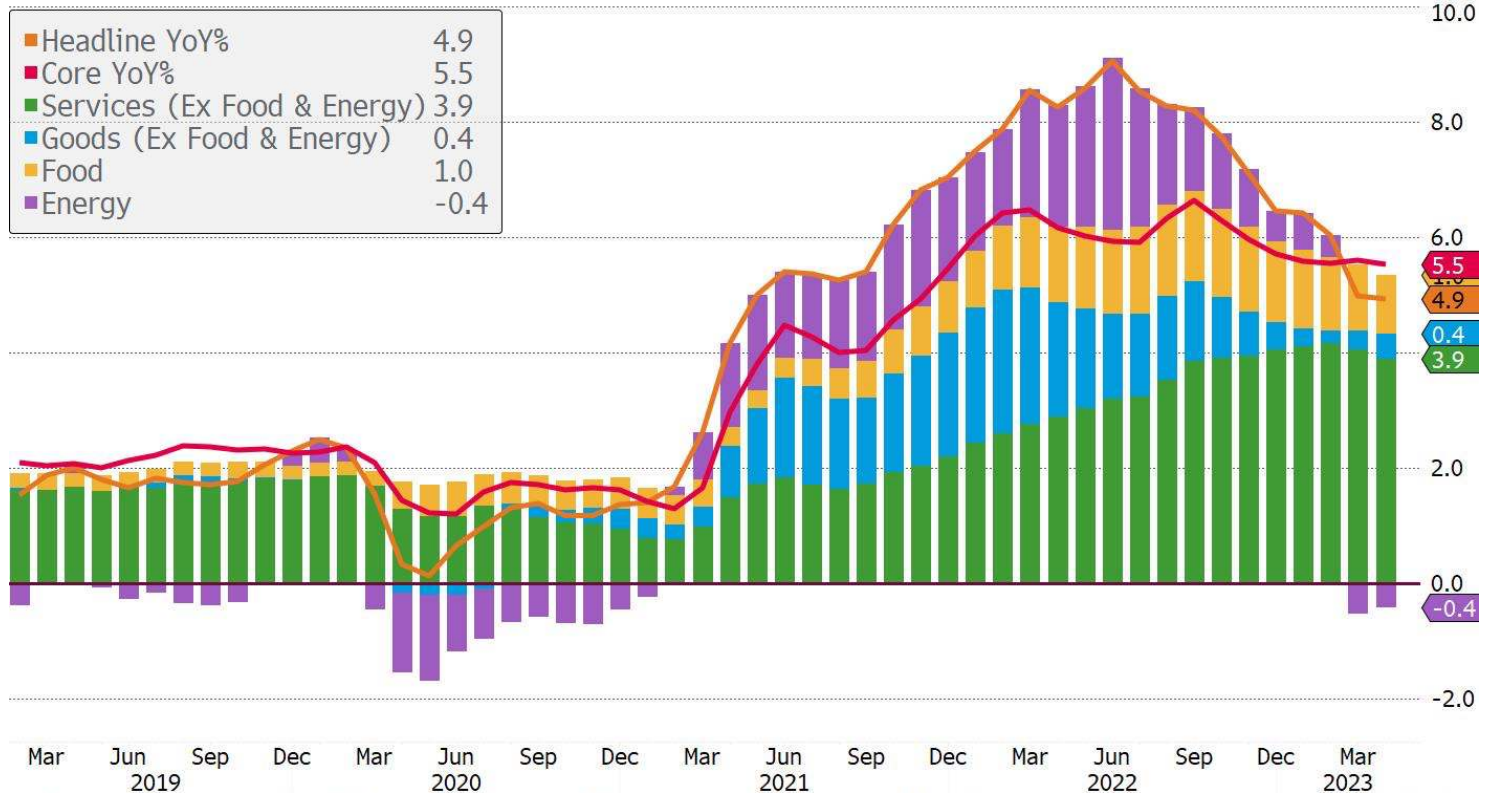
- Despite being in a disinflationary environment, services inflation is still sticky
- Upper end consumers spending at robust clip despite inflation
- Elevated inflation may require higher policy rates absent a true crisis
- Higher long-term rates will require innovation to allay increasing costs



## US Recession Outlook: Risk elevated over the next 12 months

- Economists and major models identifying 65% to 75% probability of recession in the next 12 months
- Tightening credit underwriting standards and decreasing loan demand elevate risk of slowing economic output
- Resiliency or recession – end of current business cycle to impact industries differently
- Indicators pointing to ending of business cycle

# Falling topline isn't the whole story with CPI



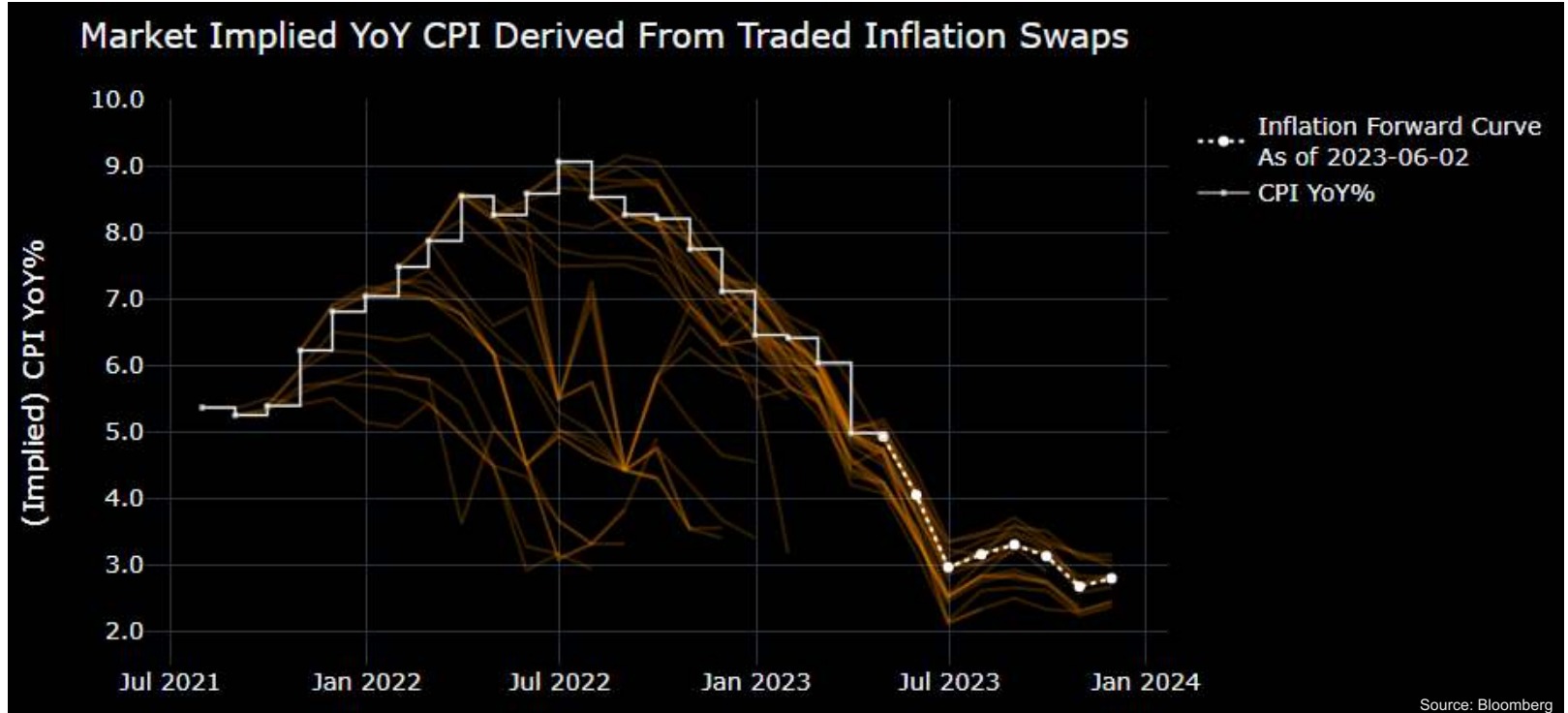
CPI YOY Index (US CPI Urban Consumers YoY NSA) US CPI breakdown Monthly 28FEB2019-02JUN2023

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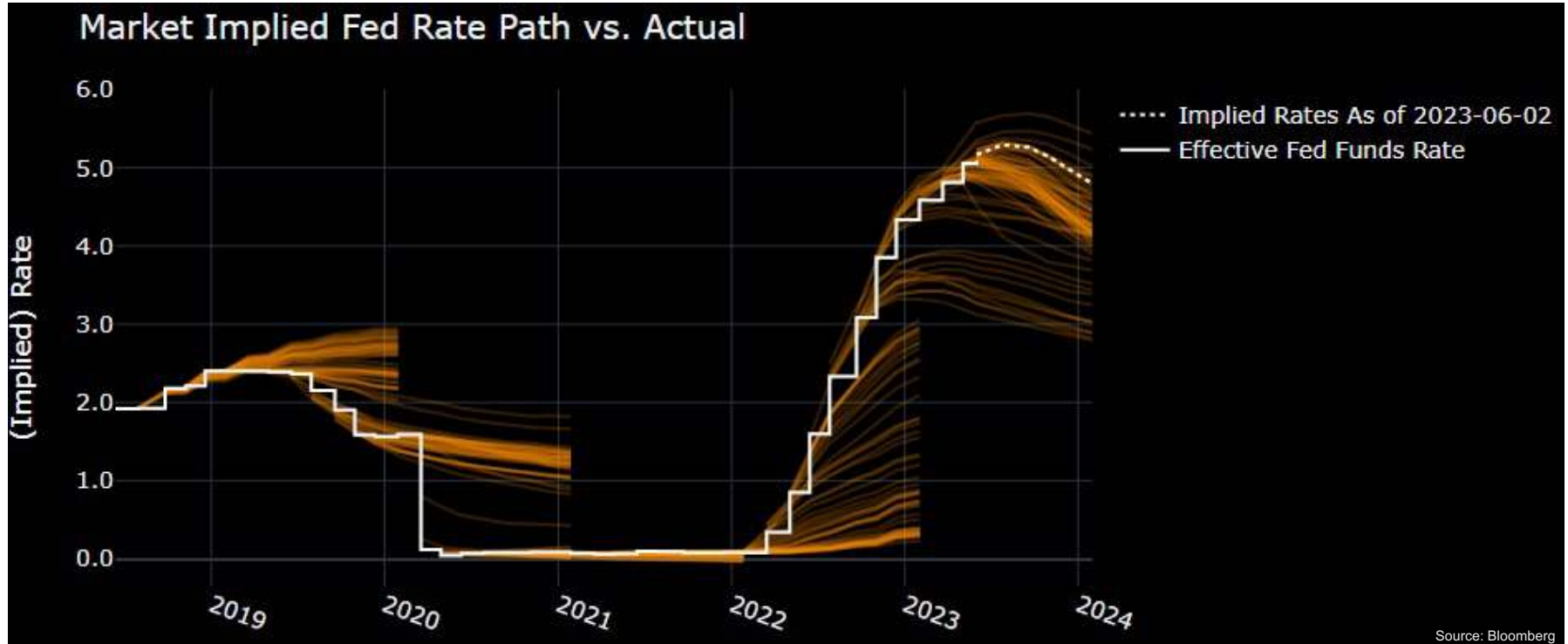
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# Real-time look at inflation expectations

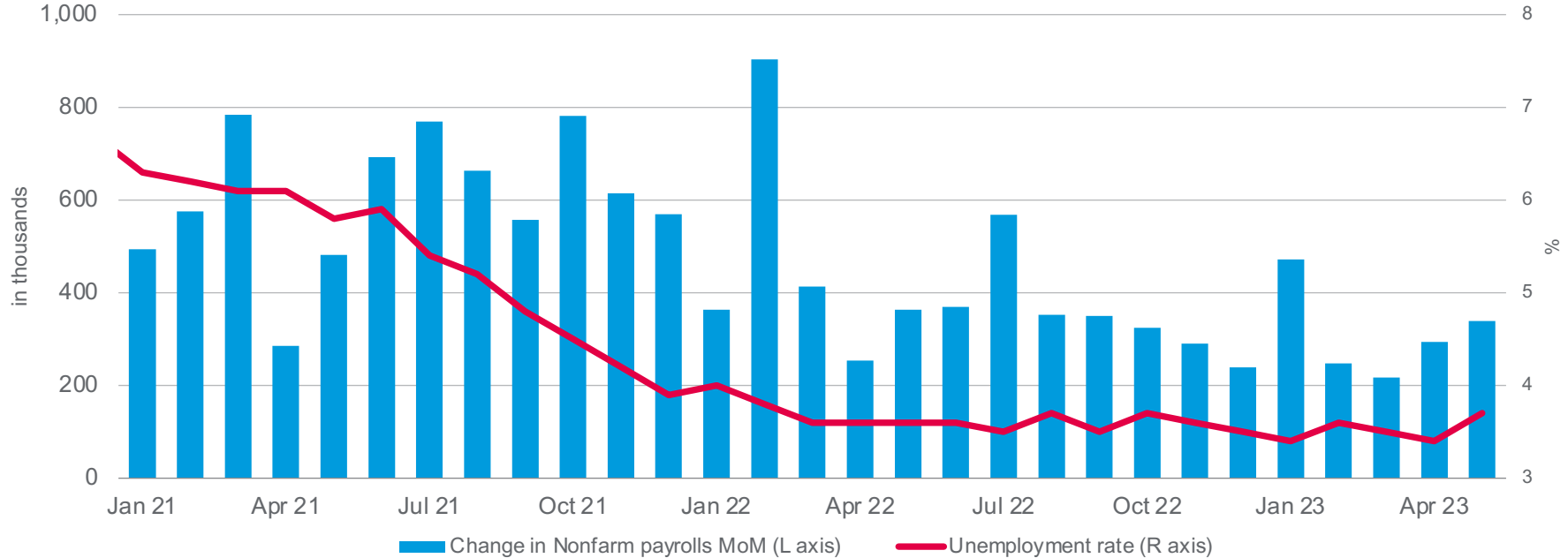


# Markets adjusting bets on Fed rate path



# Labor market incredibly resilient

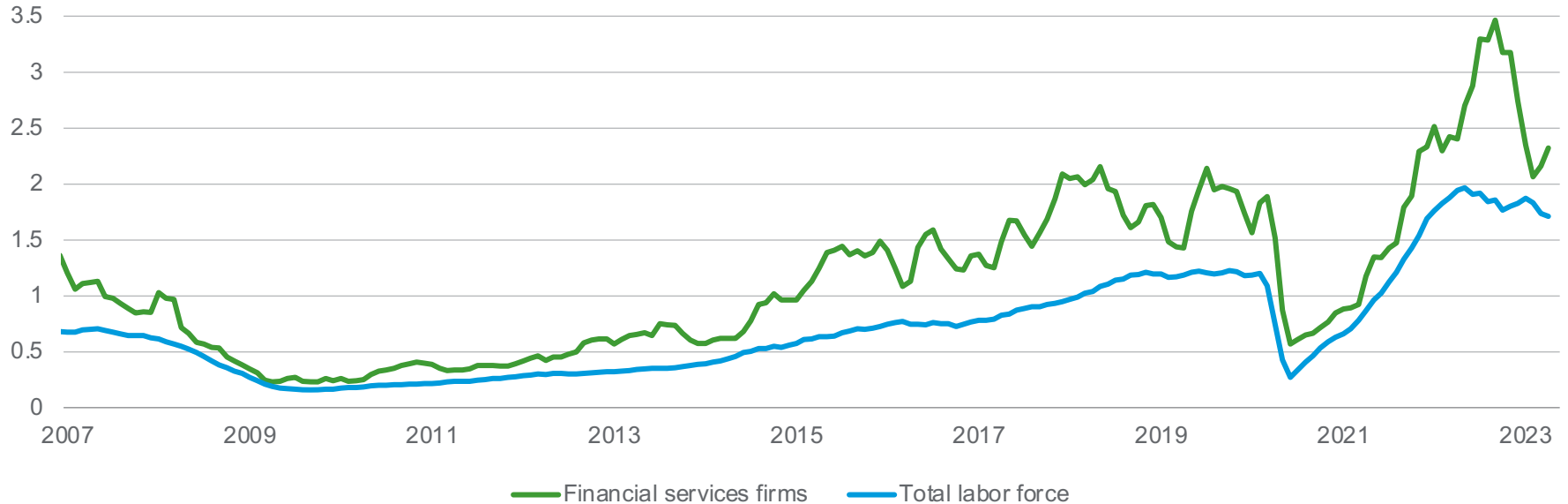
## May jobs report: a blowout



Source: BLS, RSM US

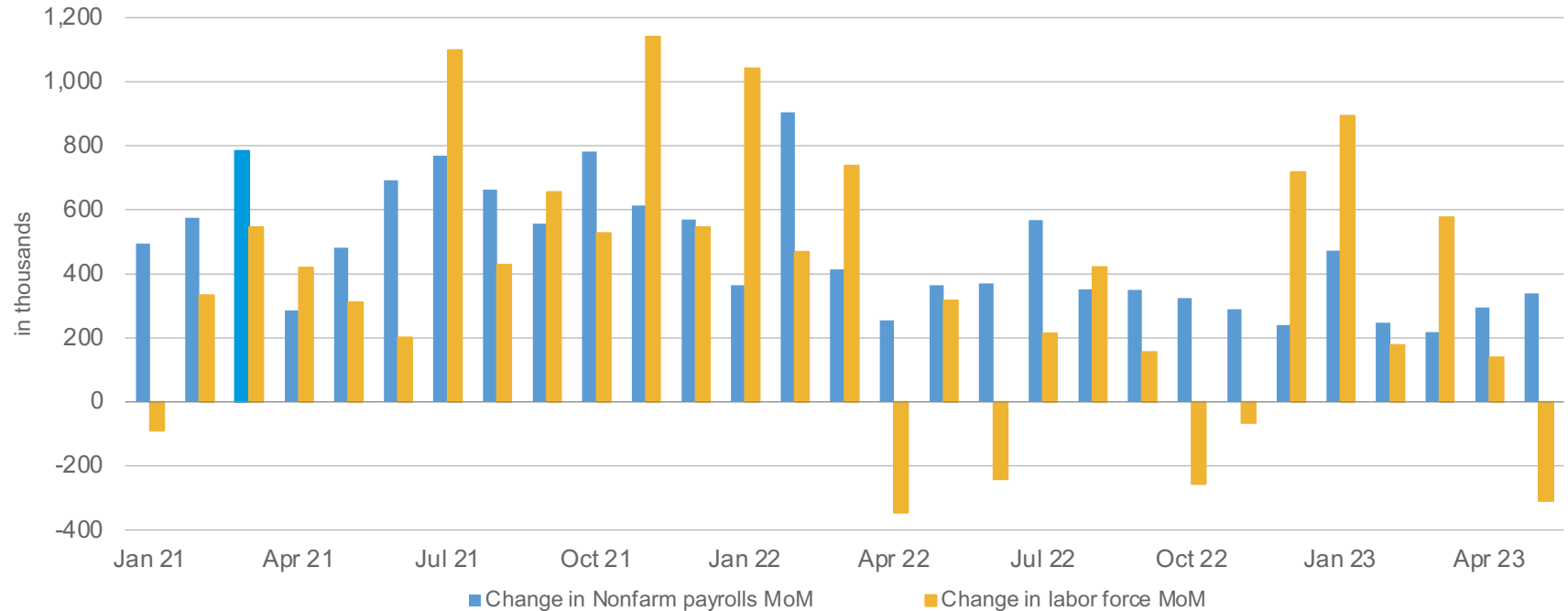
# More job openings for financial services firms than overall total

**Job openings to unemployed workers ratio**  
Seasonally adjusted, 3 month moving average



Source: BLS, RSM US

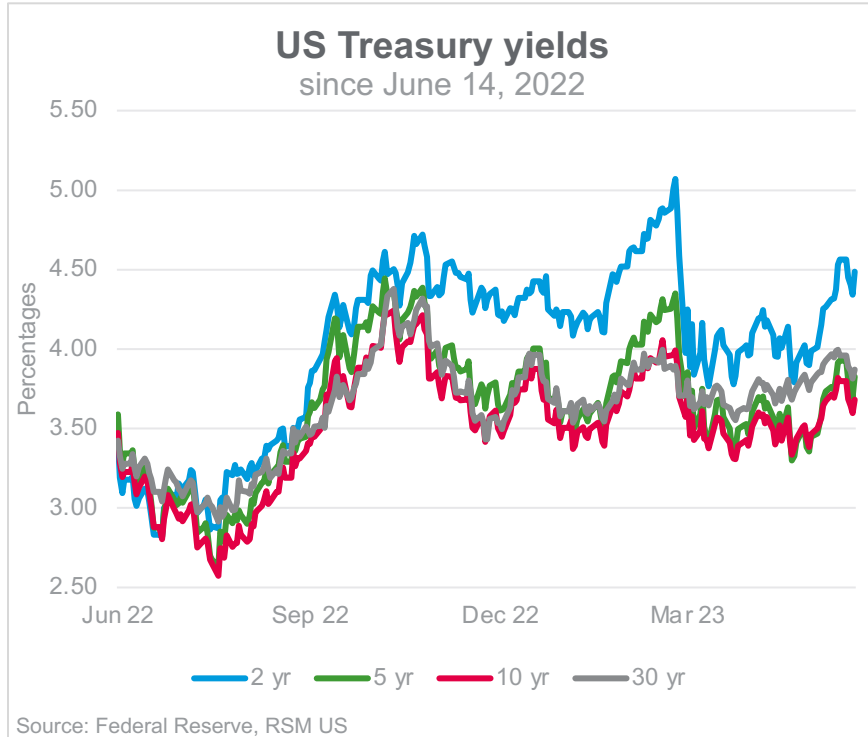
# Despite resiliency, labor market is softening



Source: BLS, RSM US



# Treasury rate environment



# Probability of recession on the rise

## NY Fed probability of recession 12 months ahead



Source: NY Fed, RSM US

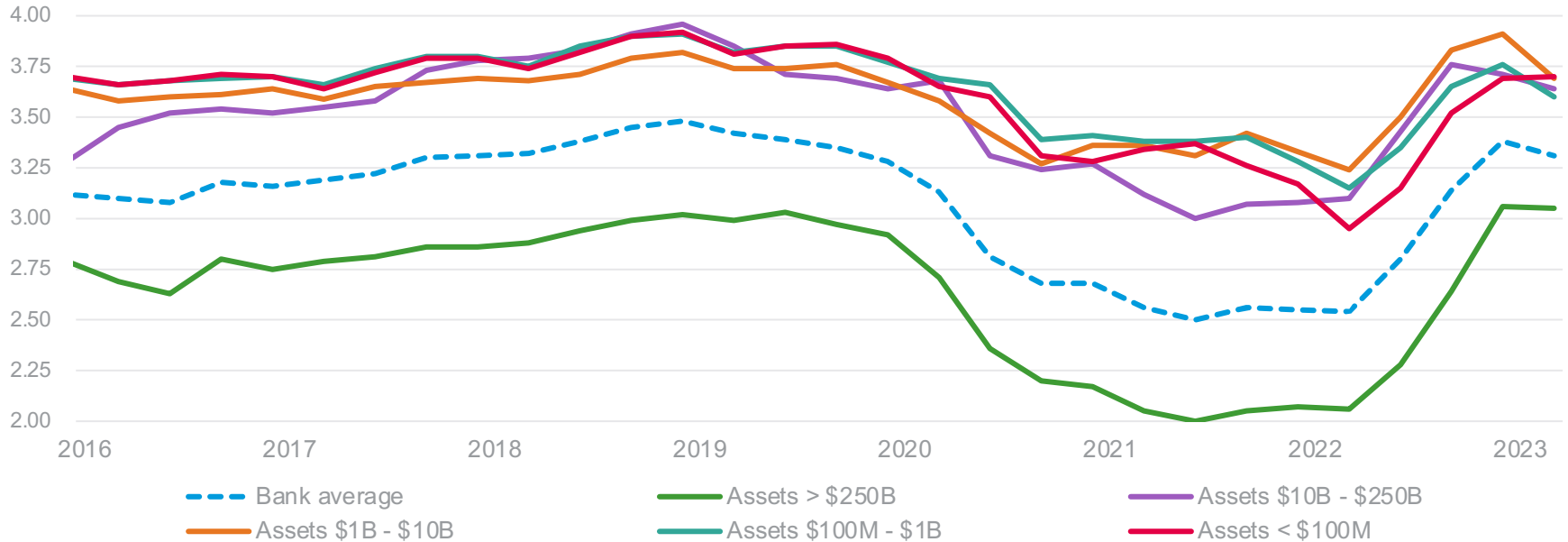
## Cleveland Fed probability of recession 12 months ahead



Source: Cleveland Fed, RSM US

# NIM rebounded in 2022

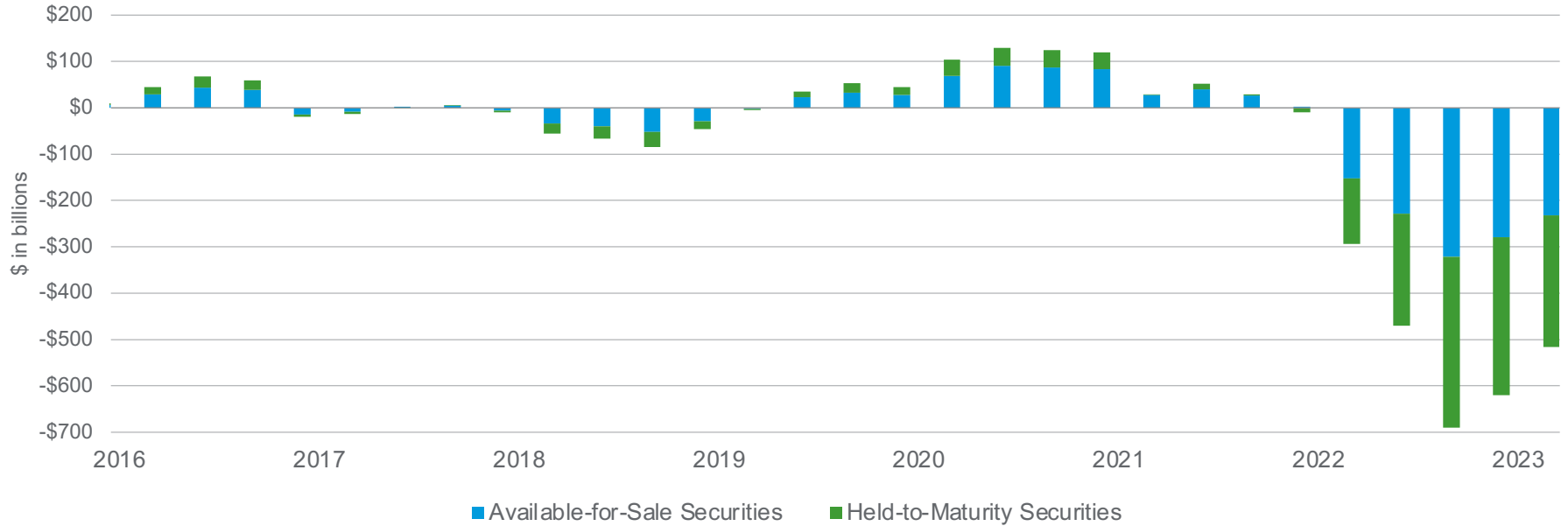
Net interest margin  
by bank asset size



Source: FDIC; RSM US

# Unrealized losses on securities will remain high

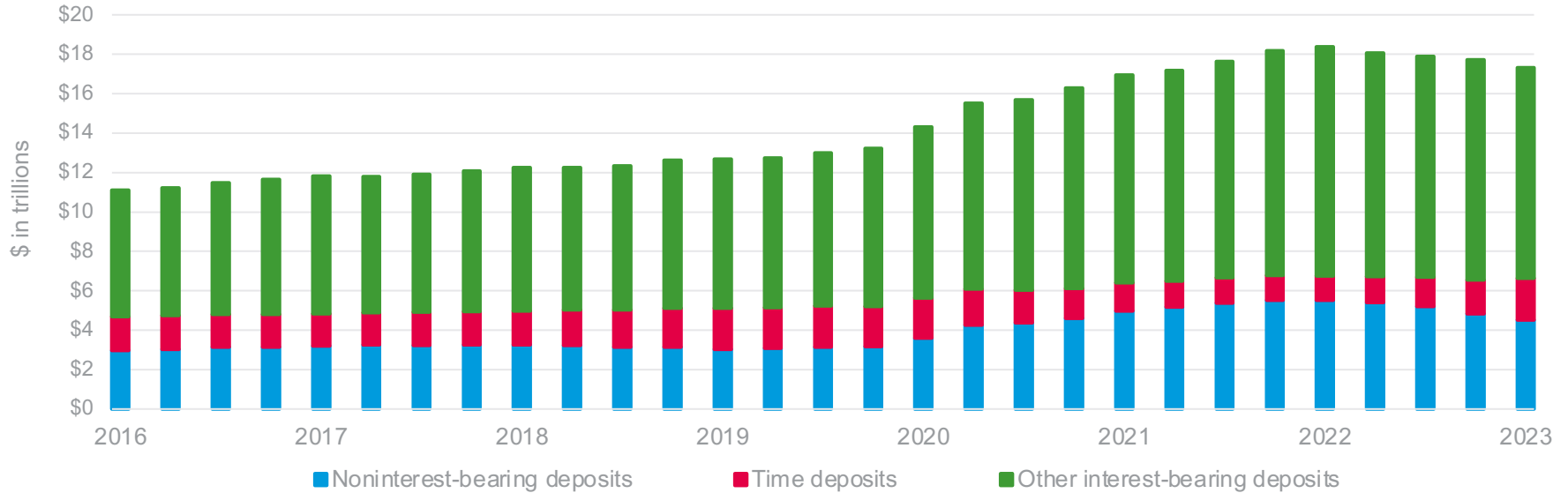
Unrealized gains (losses)  
on investment securities



Source: FDIC, RSM US

# Deposit growth reverses trend in 2022

Deposits Composition  
by deposit type

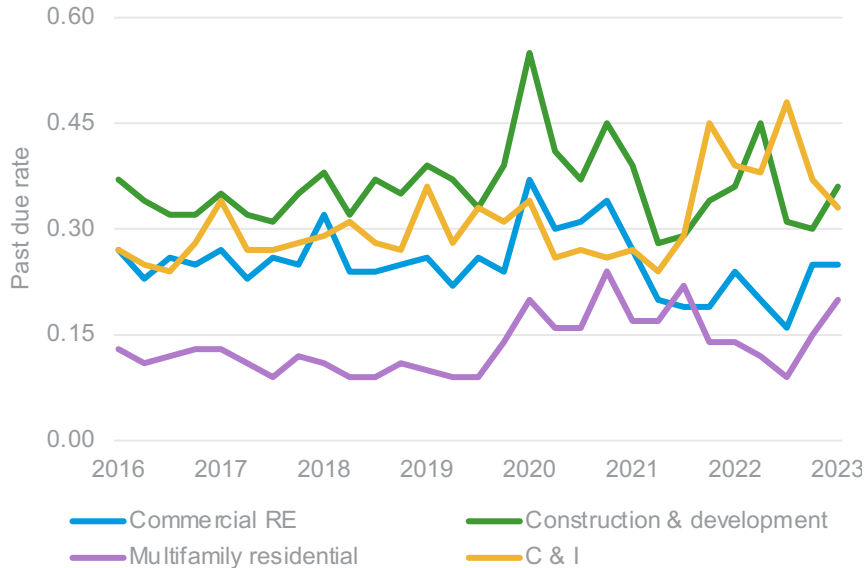


Source: FDIC, RSM US

# Credit quality indicators hitting bottom

## Delinquency rates

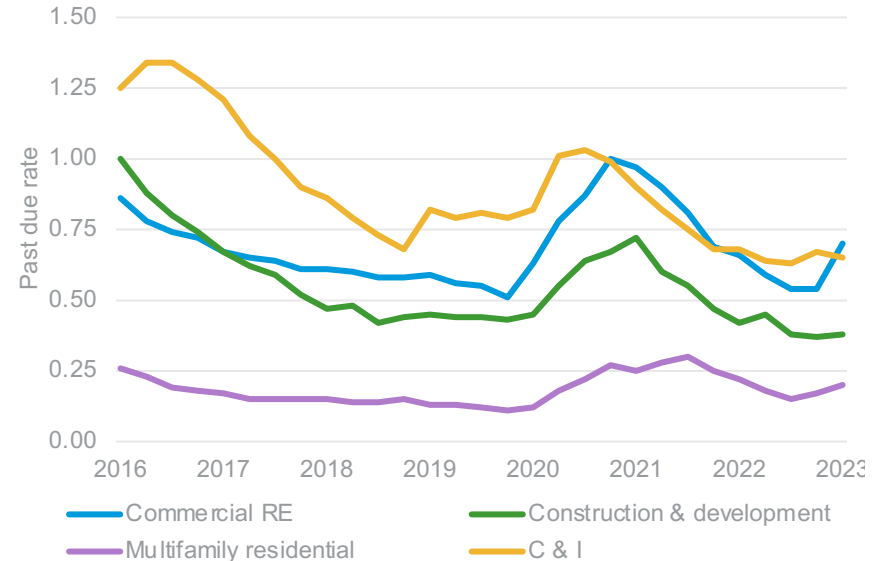
loans 30 - 89 days past due, by category



Source: FDIC, RSM US

## Noncurrent loan rates

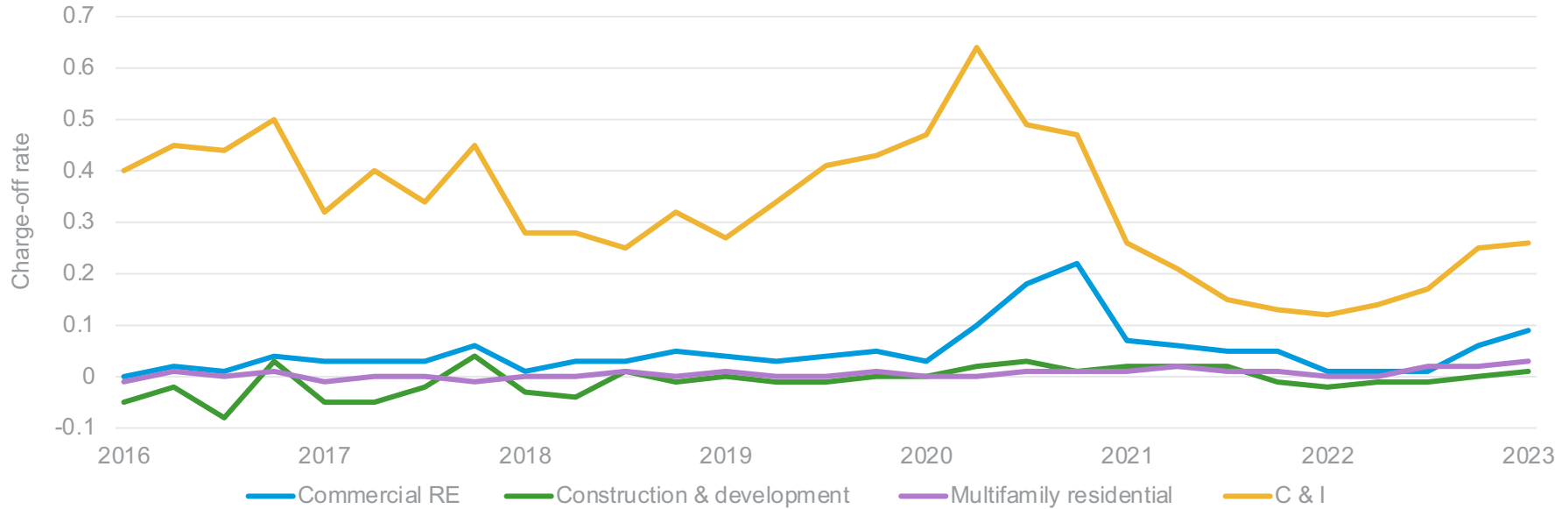
by loan category



Source: FDIC, RSM US

# Charge-offs lifting from lows

Net charge-off rates  
by loan category

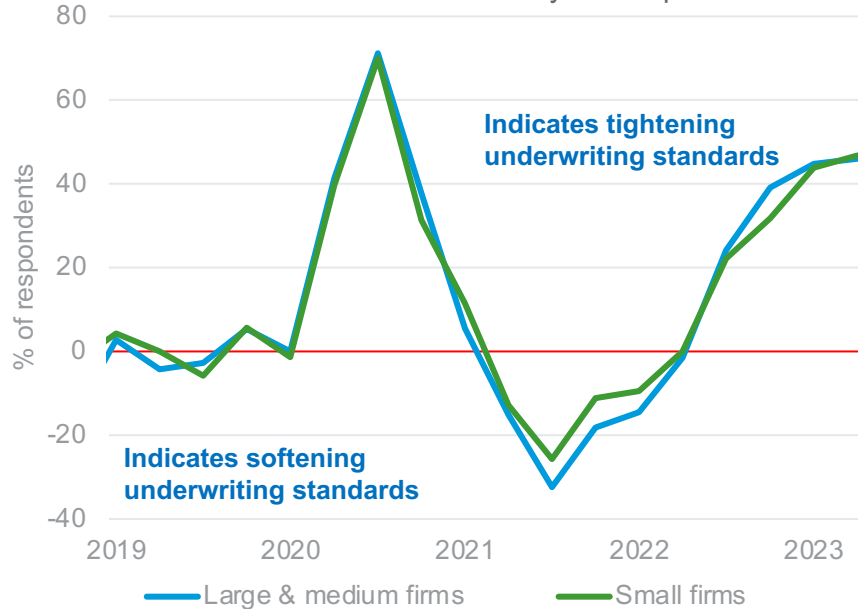


Source: FDIC, RSM US

# Credit standards tightening

## C&I loan lending standards

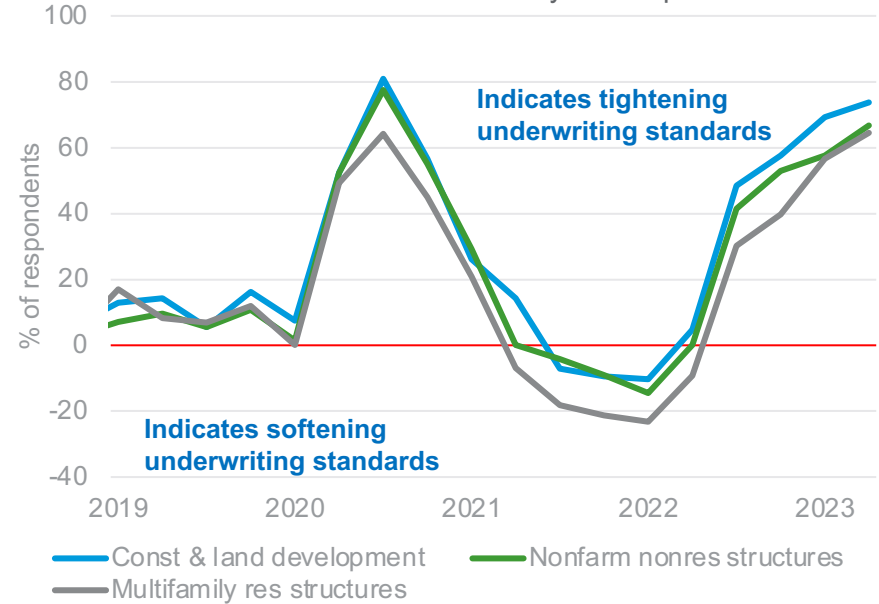
Fed Senior Loan Officer Survey as of April 2023



Source: Federal Reserve Bank, RSM US

## CRE loan lending standards

Fed Senior Loan Officer Survey as of April 2023



Source: Federal Reserve Bank, RSM US



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# How do you see the regulatory environment changing for your organization after recent instability in banking and increasing macroeconomic headwinds?

Significant increase in regulatory pressures

Minimal increase in regulatory pressures

No change in regulatory pressures

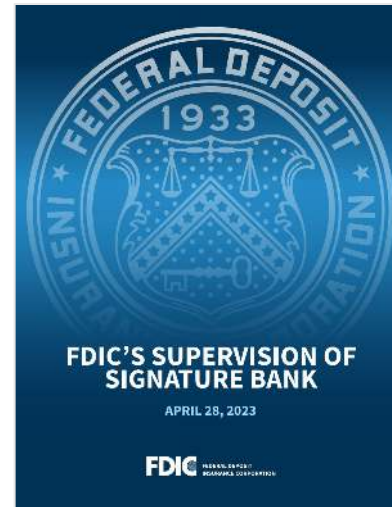
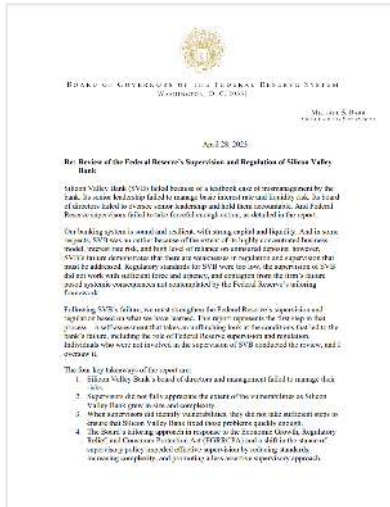
Minimal decrease in regulatory pressures

Significant decrease in regulatory pressures

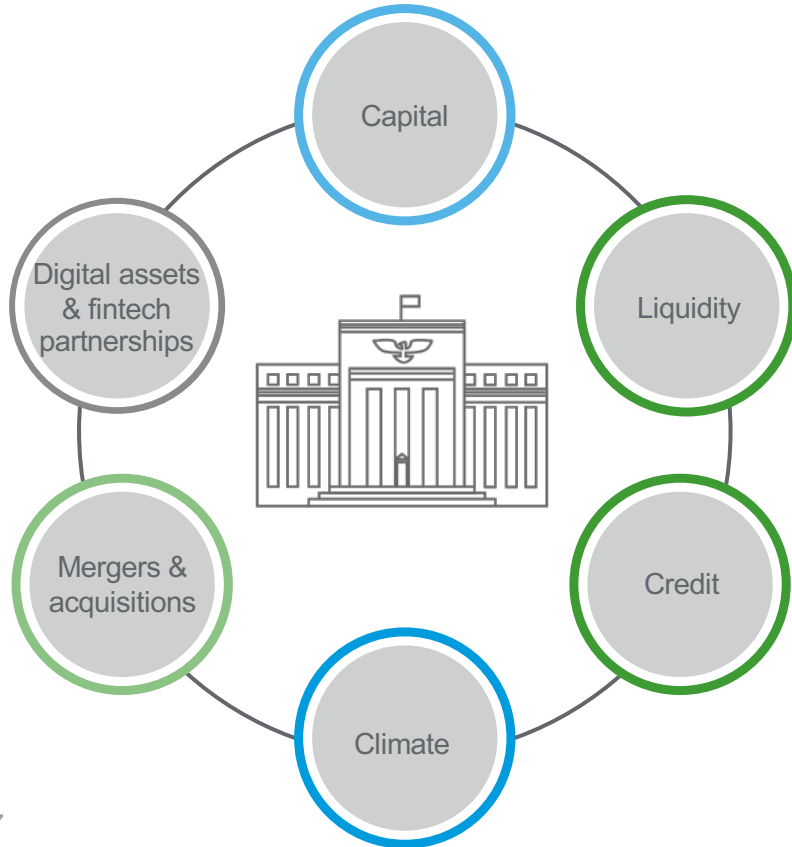
# Bank regulation: It's going to get tougher

The Federal Reserve and FDIC both released after action reports on the Silicon Valley Bank and Signature Bank failures.

**The summary:** More focus on regulation. Stricter enforcement of existing regulation.



# Key regulatory themes

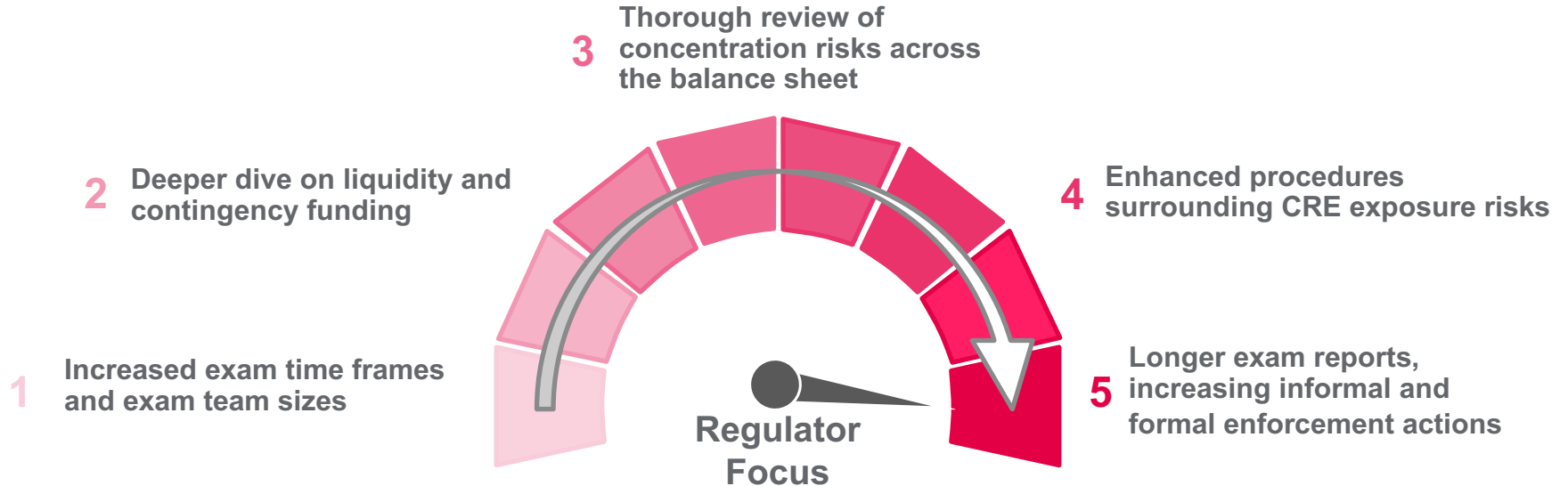


While some existing rules will see modernization, others may be **tailored** under current authority or increasing likelihood of new regulatory guidance altogether.

The industry was already anticipating such changes well before the recent bank failures. We now anticipate those failures will increase pace regulatory scrutiny.

# Regulatory heat: Dial's turned Up

Increased regulatory scrutiny will be felt across all institutions – no matter the size, no matter the regulator.



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# How familiar are you with recent advancements in AI technologies?

I'm an avid user of ChatGPT

I use chatbots online

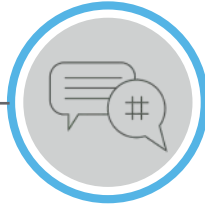
I know there is a lot of hype around AI

I need to start reading up on AI

I'm behind the hype curve

# Current AI use cases

Today, AI use cases are numerous but examples include



## Chatbots

Built to handle routine inquiries, provide account information, offer product recommendations, and assist with basic transactions, enhancing customer experience while reducing operational costs.



## Natural Language Processing

Used for sentiment analysis of social media posts, news articles, and customer feedback, providing valuable insights for investment decisions, risk assessments, and customer sentiment analysis.



## Credit Underwriting

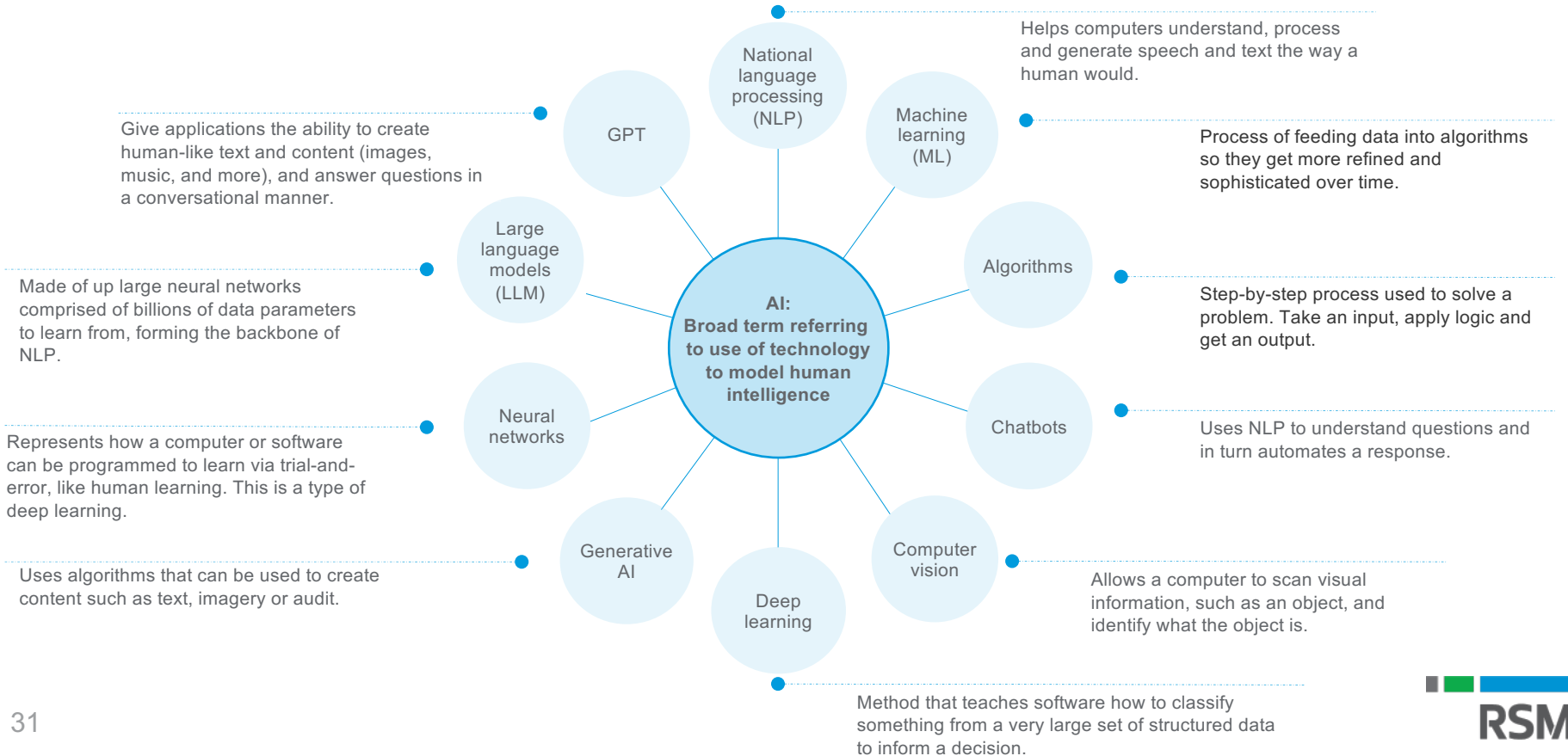
Analyze various data points, such as credit scores, income statements, employment history, and social media profiles, AI algorithms can assess creditworthiness, determine loan eligibility, and set interest rates.



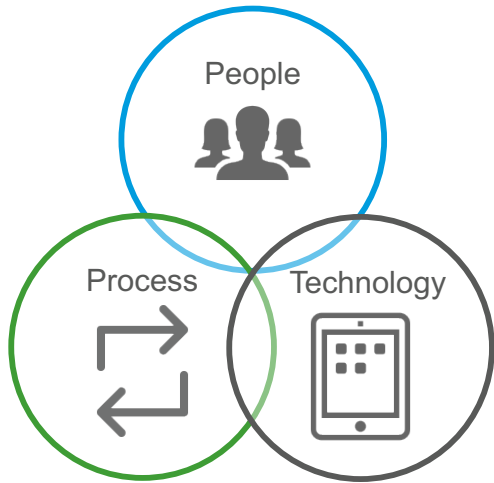
## Risk Assessment and Management

Analyze large sets of data, including market trends, credit history, and financial statements. It can help financial institutions make more accurate predictions and assess the creditworthiness of individuals or businesses.

# AI definitional map



# Future use cases for AI in banking



AI is a tool to augment human capabilities, not an outright replacement for human judgment. The appropriate mix of people, processes and AI technology will create outsized opportunities for audit and risk departments.

Leveraging new AI technology, audit departments can improve audit processes and empower talent.

Improved audit risk assessments and testing

Continuous, real-time risk assessments

100% population testing

Exception identification

Automated report & presentation preparation

Audit of the future

Real-time, instantaneous

Cost effective





Over the next 12 months, what is your outlook for your organization?

THANK YOU

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