



Insights For Your Strategic Planning

🔗 performance strategic planning pandemic

Summary: We provide the findings and our insights from a new report on the economic recovery for commercial banks, to help with your strategic planning.

La Paz, Bolivia is the capital city at the highest altitude worldwide -- 11,942 feet. While you likely aren't planning any South American trips in the near future, we thought this was interesting trivia. But, now we bring you back to the US to review findings of a [new report by Deloitte](#).

This report projects US commercial banks' balance sheet and profitability over the next 5Ys. These findings and our insight could prove helpful as you begin the strategic planning season.

In Deloitte's baseline scenario, to which the firm attaches a 70% probability, recovery won't kick-start until mid-2021. The firm predicts an environment in which GDP drops 12.4% this year, and 4% in 2021, followed by a solid recovery in 2022-23. In this scenario, unemployment would continue to rise, topping off at 16.1% in 2022.

This baseline scenario could result in US commercial banks experiencing net loan losses of as much as \$387B from 2020 to 2022. Return on equity (RoE) could decline to 2.3% in 2020. Moreover, increased profit pressure could further squeeze banks out of existence. In Deloitte's estimation, the number of US commercial banks could tumble to 3,150 by 2024, down from 4,500 in 2019.

Obviously, the predictions could be much worse, if other scenarios come to fruition. One more possibility, to which Deloitte attaches a 25% probability, is that the economic turmoil and pandemic continue to rage on unabated.

In any of the scenarios, RoE could fall to between 1.5% and 5.2% this year and revenue pressure, especially short-term, is likely to be high. This drives up the imperative for banks to rationalize costs and work on their efficiency ratios. Loan growth is expected to be muted -- at least this year. An uptick in deposit pricing after 2022 is possible only in Deloitte's best-case scenario, thus it remains a formidable challenge.

To be sure, all this uncertainty translates into the need for tough conversations among bank management.

1. **Agenda for strategic planning.** During your strategic planning exercises, several topics to discuss should include loan defaults, default management, forecasting, risk management, balance sheet capacity, underwriting, cost-cutting initiatives, and more.
2. **Take the time needed.** You may need more time to discuss all of this, especially if management is still working remotely. Make sure you plan on a little more time to get the planning right. It will pay off in spades later.
3. **Check-in regularly.** As this is an unprecedented time, you will want to keep checking in with your management and adjust based on new information, to ensure your strategic plan is still on course.

Regardless of how accurate Deloitte's predictions turn out to be, CFIs are likely to be making difficult decisions for the foreseeable future. We hope that this information helps you with those discussions and subsequent

decisions.

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