

The Next Phase: Change Accelerated at North American Banks

Amid the fallout from the coronavirus-induced global pandemic, banks in North America will continue to face a challenging operating environment throughout the medium term. Industry trends within North America that were emerging prior to the pandemic, such as persistently low interest rates, digital transformation/higher technology spend and industry consolidation, are expected to accelerate and ultimately challenge ratings over the longer term.

Going into 2020, North American banks were already confronting the challenges of lower interest rates along with tighter operating margins on fee-based products. The unprecedented monetary and fiscal policy responses to address economic concerns have amplified and accelerated these profitability challenges, which are expected to result in further industry consolidation and prompt more focused reviews of current business models. High levels of system liquidity, coupled with the U.S. Federal Reserve and Bank of Canada's messaging around rates remaining low for even longer, present strategic and performance challenges that could result in weaker earnings over time.

North American banks also face accelerated competition from nonbank peers as well as changing customer behavior, trends that were already occurring pre-pandemic, and these will magnify the importance of technology spending. The need - and increased difficulty - for banks to address these trends amid a more challenging environment will likely create winners that will see relatively steady or positive rating outcomes as well as laggards that could experience rating headwinds over the longer term.

An acceleration of environmental, social and governance (ESG) factors are expected to figure more prominently in North American bank risk management frameworks which would be viewed positively, although unlikely to have a material effect on ratings.

Fitch's report "The Next Phase: Change Accelerated at North American Banks" is part of a series that examines the longer-term effects of the coronavirus pandemic and resulting economic shock. Click [here](#) to access the report.

