

OPINIONFinancial Services
Industry Division

Key Issues in the Securities Industry for 2025

In 2025, the securities industry is expected to face various environmental changes, including increased overseas stock investment, heightened market volatility, accelerated adoption of AI, value-up programs for listed companies, and financial and ESG policies of the second Trump administration. Accordingly, securities firms need to expand related products and wealth management services in response to the increase in demand for overseas stock investment and strengthen risk management in the proprietary trading sector in preparation for the volatility in won-dollar exchange rates and interest rates. As the AI-related regulatory system is established, securities firms are expected to face new challenges of recruiting and training talent in the AI field, utilizing it to drive digital innovation, and improving work efficiency. Considering the long-term growth factors of the M&A market, such as recent Value-up programs, regulatory improvements, and acceleration of industrial restructuring, it may be time for securities firms to build expertise and actively enter the advisory service sector. The industry and policy authorities are required to conduct a proper review and devise a response strategy for market changes resulting from the financial industry and ESG policies of the second Trump administration. To sum up, the securities industry will need to secure sophisticated risk management and pursue sustainable growth strategies through innovation and adaptation in the rapidly changing market environment of 2025.

The key issues for the securities industry in 2025 are based on changes in the market and regulatory environment surrounding the industry. First, the profitability of the securities industry could be affected significantly by market conditions such as increased overseas stock investment, high interest rate volatility, and won-dollar exchange rates. AI-related regulatory

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

improvements, value-up programs, and the enhancement of M&A regulations will be key issues in the mid-to-long-term business strategies of securities firms. The second Trump administration's policies related to the financial industry and ESG may also have a direct or indirect impact on the domestic securities industry. In this article, we will explore these changes in the market and regulatory environment and discuss their impact on the securities industry as well as possible strategic responses.

New environment: Increased US equity investments, high exchange rates, and interest rate volatility

In 2025, the US dollar is expected to remain strong, and sovereign bond yields in major economies are likely to experience high volatility as global trade tensions escalate and inflationary pressures mount due to rising supply chain risks. The high exchange rate and the high volatility in interest rates will make won-denominated assets less attractive and increase demand for foreign risk assets such as US equities and foreign alternative investment assets. Due to the continued decline in expected returns on Korean equities and growing expectations for the high growth potential of US equities, direct investment in overseas stocks is expected to keep increasing this year. Additionally, potential demand for various overseas investment assets, including digital assets, overseas real estate infrastructure, and private equity, is likely to grow. Accordingly, domestic securities firms need to systematically establish their strategies for services and sales related to overseas brokerage and financial investment products.

Meanwhile, increased volatility in won-dollar exchange rates and interest rates could lead to greater fluctuations in the profitability of securities firms' proprietary trading operations. As of the end of the third quarter of 2024, domestic securities firms' bond holdings stood at KRW 294 trillion. Assuming the bonds' duration of one year, a 100bp increase in interest rates could result in an estimated valuation loss of approximately KRW 3.4 trillion. Additionally, if the risk of corporate bond defaults rises, further losses may occur. The volume of over-the-counter derivatives handled by securities firms is also rising sharply. A substantial increase in the won-dollar exchange rate could lead to margin calls from foreign banks, potentially exposing securities firms to liquidity risk. Therefore, domestic securities firms will need to strengthen risk management in their proprietary trading based on scenario-driven forecasts of interest rate and foreign exchange movements.

Figure 1. % of overseas brokerage commissions

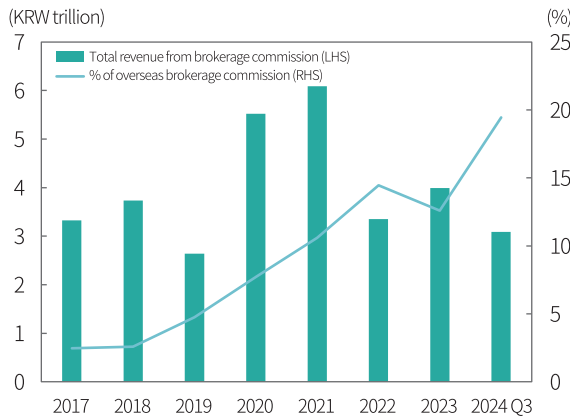
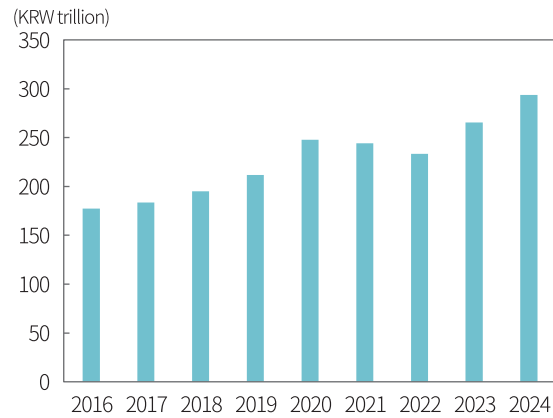


Figure 2. Securities firms' bond holdings



Source: Korea Financial Investment Association, Financial Supervisory Service

AI: Establishment of Regulatory Frameworks and Opportunities for Enhancing Financial Services Competitiveness

The year 2025 is expected to be a major turning point in which AI technology will have a major impact on the financial sector. As artificial intelligence is rapidly evolving into AI agents and AGI (Artificial General Intelligence) that surpass the capabilities of generative AI, Korea has been devising a regulatory framework to institutionally support the development and use of artificial intelligence technology (Aldasoro et al., 2024). The AI Basic Act was passed by the National Assembly in December 2024. In the same month, financial authorities announced a support plan for the utilization of generative AI in the financial sector to actively promote AI adoption within the industry. Furthermore, they plan to revise the AI guidelines for the financial sector in the first half of this year.

In response, financial firms are stepping up efforts to develop AI-based financial services. Since last year, all financial sectors have been expanding the recruitment and training of AI talents. The introduction of AI-based financial services is also actively underway. As of December 2024, nine financial firms (four banks, two securities firms, two insurers, and one credit card company) have been designated for 10 AI-based innovative financial services through the financial regulatory sandbox. These cases illustrate the growing recognition of AI technology’s importance across all financial sectors.

Table 1. Financial authorities' designation of innovative financial services using generative AI

Company	Name of service	Service details
Shinhan Bank	GAI-based AI bank teller	Provide natural language-based financial consulting, foreign language translation, etc.
	GAI-based investment and financial knowledge Q&A service	Provide news summaries, past performance data, market trend, etc. based on natural language
KB Kookmin Bank	GAI financial consulting agent	Provide customer-friendly interactions and consultations
NH Bank	Financial services based on GAI platform	AI bank tellers provide consultations for foreign and elderly customers
Kakao Bank	Interactive financial calculator	Calculate interest rates and exchange rates, etc. related to financial products based on natural language
NH Securities	GAI market information services for customers	Provide real-time summaries of customized market information
KB Securities	AI-integrated financial platform Cabi	Provide interactive services such as currency exchange and wealth management
Kyobo Life Insurance	AI supporter for coverage analysis	Provide insurance brokers with customized consultation scripts based on customers' coverage analysis reports
Hanwha Life Insurance	GAI-driven bespoke speech generation and virtual conversation training solution	Offer insurance brokers with the latest news for sales pitches
KB Kookmin Card	Everyone's card life mate using GAI	Provide interactive financial services such as customized product comparison and issuance services

Source: Financial Services Commission and Financial Supervisory Service (Dec. 9, 2024)

In the digital age, AI capabilities are a key factor in determining the future competitiveness of financial firms. Accordingly, domestic securities firms must be able to secure high-quality AI talent, which is essential for effective integration of AI technology. In addition, they should start preparing for future competitiveness by boldly investing in AI technology to advance AI-based investment management and wealth management services for stocks, ETFs, bonds, and funds, as well as improving work efficiency and cost effectiveness.

Korea's value-up program: Strengthening corporate finance through improvement of M&A advisory services

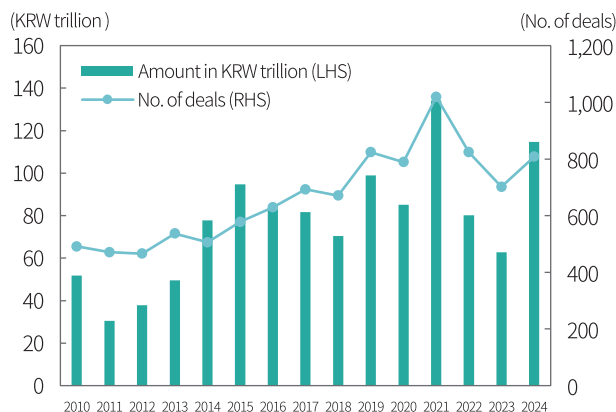
As the emergence of new growth industries accelerates industrial restructuring, corporate demand for M&A advisory services is expected to grow further, driven by institutional factors

such as Korea's value-up initiative implemented last year and regulatory improvements to promote M&A. Due to the acceleration of industrial restructuring, large corporations are actively acquiring new growth companies and selling off non-core assets, while private equity funds are ramping up their investment. As shown in Figure 3, the domestic M&A market is growing rapidly due to structural factors that promote industrial structural efficiency, and this trend is expected to continue. Moreover, following the implementation of the value-up program last year, listed companies are required to make effort to enhance their corporate value and develop long-term growth plans. As a result, they are expected to not only restructure their business portfolios and optimize their capital structures but also increase M&A activity and investments in new businesses. Therefore, the M&A advisory market has great potential to grow into a core sector of investment banking, similar to the US.¹⁾

Recently, the investment banking sector of domestic securities firms has been facing significant profitability declines due to losses from the real estate project financing crisis and the overall market contraction. It is expected that this issue will be difficult to recover from even in the long run. In addition, since the domestic securities industry provides corporate finance services to all industries, it tends to focus on standardized investment banking services. Accordingly, rather than relying on skilled professionals for advisory services, firms have increasingly focused on underwriting services leveraging their capital strength. However, even this segment is experiencing a decline in profit due to intensifying fee competition and a slowing market expansion. While the M&A advisory market requires specialization and expertise, presenting high entry barriers for newcomers, it also holds significant demand potential, as previously discussed. With long-term growth factors in the M&A market—such as recent value-up programs, regulatory improvements to promote M&A, and the acceleration of industrial restructuring—now may be the time for securities firms to develop expertise and actively expand into the advisory services sector.

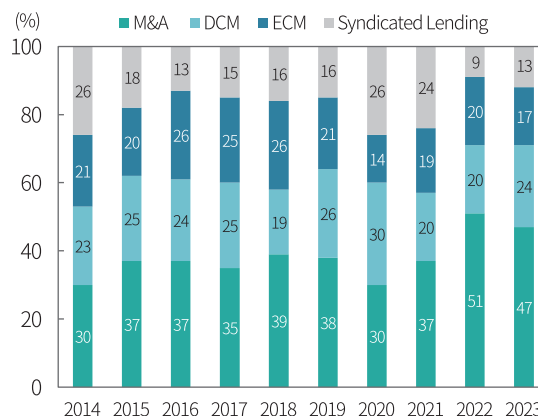
1) M&A advisory services account for nearly 40% of total investment banking revenues in the US, and there are approximately 800 small- to mid-sized IBs active in this market.

Figure 3. Domestic M&A in value and number of deals



Source: KOFIA, SIFMA

Figure 4. US investment banking revenue breakdown



Shifting policies: Impact of Trump’s second term on financial industry and ESG finance, and response strategies

The key financial market policies of the second Trump administration can be broadly divided into two aspects: (1) improving the operational efficiency of financial firms through deregulation and (2) efforts to revitalize the market.²⁾ The Volcker Rule restricts banks from engaging in high-risk investments. Loosening these restrictions could enhance the operational efficiency of large financial institutions but may also weaken financial system stability. The Basel III Endgame is also expected to diverge from the European approach of strengthening macroprudential standards and specifying capital requirements.³⁾ The relaxation of M&A review standards for financial firms is aimed at promoting mergers between small- to mid-sized banks and realizing economies of scale centered on large banks. This could enhance financial companies’ technological investment and operational efficiency, thereby strengthening their global competitiveness. However, there are also concerns that it could increase the risk of failure for large banks.

Meanwhile, the reduction or abolition of the Consumer Financial Protection Bureau (CFPB)’s

2) For major financial market regulations in the second Trump administration, see Elliott (2024). Additionally, the Brookings Institute maintains a website that tracks regulatory changes in the Trump administration (For details, visit <https://www.brookings.edu/articles/tracking-regulatory-changes-in-the-second-trump-administration/>).

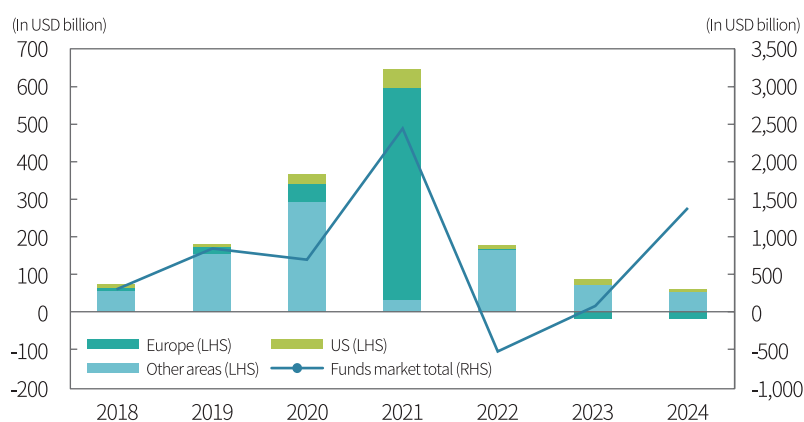
3) US financial institutions believe that further strengthening capital requirements will increase costs with little market stability benefit (BPI, Feb. 1, 2022; Zhang et al., Nov. 8, 2023) because the regulations in place since the 2008 financial crisis are already overly rigid (Zhang & Ryan, Feb. 6, 2023).

authority, along with efforts to revitalize the digital asset market, are being discussed from the perspective of market revitalization, as these measures could create opportunities to enhance profitability through the development of innovative financial products. However, they may also have the negative effect of increasing market risk. The CFPB was established to protect financial consumers, and the US Republican Party has consistently called for the abolition or reduction of the authority, considering it to be excessive government intervention.⁴⁾ While abolishing the CFPB is expected to reduce the regulatory burden and spur the development of innovative financial products, it could reduce the transparency of financial transactions and infringe on the rights of financial consumers. The Trump administration is also likely to introduce market-friendly regulations in the digital asset market, which will likely reduce regulatory uncertainty around cryptocurrency and encourage market growth. However, increased investment in highly volatile assets may increase financial market risk.

Changes in US policy stance in terms of financial regulation are expected to have an impact on global financial markets. Amid these shifts, Korea also needs to explore policy responses that maintain a balance between enhancing the efficiency of large financial companies, ensuring financial system stability, and protecting financial consumers.

Furthermore, Trump's second term ESG policy is expected to differ significantly from that of the Biden administration. The first Trump administration weakened climate change response policies, including announcing its withdrawal from the Paris Climate Agreement in 2017. The second administration is also expected to ease ESG-related regulations. In particular, the policy of providing green energy subsidies through the Inflation Reduction Act implemented by the Biden administration in 2022 is likely to be reduced or abolished. These changes in the ESG landscape are expected to have a significant impact on domestic industries as well. If the growth of the global renewable energy industry slows due to the US government's reduction in green subsidies, it could restrict the overseas expansion of Korean companies in electric vehicles, batteries, and hydrogen sectors.

4) For Republican opposition to the CFPB, see Elliott (2024), Romm (Nov. 23, 2024), and others.

Figure 5. Capital inflows to global ESG funds

Source: Morningstar Direct, as of December 2024

Changes in the ESG landscape are expected to have a ripple effect on the domestic securities industry. If the weakening ESG investment trend in the US leads to slower inflows into green funds managed by global asset managers, this could also constrain the growth of ESG-related financial products managed or brokered by domestic securities firms. In particular, financing costs may increase in the issuance of green bonds, initial public offerings, and investment banking activities related to renewable energy and eco-friendly projects. On the other hand, as the trend of strengthening ESG initiatives remains strong in the European and Asian markets, domestic securities firms will need to adopt a balanced investment strategy and risk management approach in response to global market changes.

Challenges ahead in the securities industry

In 2025, the securities industry will face complex challenges, including increased overseas equity investments, potential market volatility, accelerating AI adoption, changes in the investment banking market, and Trump's second term policies. Accordingly, securities firms will need strategies to strengthen risk management, diversify their profit structure, innovate digitally, and respond to changes in the global environment. In the short term, they should expand the range of products and wealth management services to meet the growing demand for overseas stock investment while effectively responding to financial market volatility. From the mid-to-long-term perspective, their key challenge will be strengthening competitiveness in AI-driven financial services and corporate finance. In addition, the industry and policymakers

need to conduct a thorough review and adopt a balanced response strategy to changes in Trump's financial policies and ESG finance. Finally, the securities industry must secure a sophisticated risk management system and pursue sustainable growth through innovation and adaptation in a rapidly changing market environment .

References

Financial Services Commission & Financial Supervisory Service, December 9, 2024. The provision of innovative financial services utilizing generative AI is becoming fully operational, Press Release.

Aldasoro, I., Gambacorta, L., Korinek, A., Shreeti, V., Stein, M., 2024, Intelligent Financial System: How AI Is Transforming Finance, BIS Working Papers No.1194.

Bank Policy Institute (BPI), 2022. 1. 10, Basel III Endgame and the Cost of Credit for American Business.

Elliott, D.J., 2024, Trump 2.0 and Financial Regulation, OliverWyman.

Romm, T., 2024. 11. 23, Trump and GOP eye new limits on Consumer Financial Protection Bureau, The Washington Post.

Zhang, G. & Ryan, P., 2023. 2. 6, Understanding the Current Regulatory Capital Requirements Applicable to US Banks, SIFMA.

Zhang, G., Ryan, P., & McDowell, C., 2023. 11. 8, The Federal Reserve Should Remove "Gold-Plating" in the Basel III Endgame, SIFMA.