



Global Banking CEO Outlook

**The road to renewal guided by
purpose, fueled by digital innovation**

KPMG International

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The pandemic has forever changed the way financial services institutions do business. Confidence levels have remained fairly consistent since last year, with a strong connection to organizational purpose building confidence in the industry's growth. We're also seeing that driving the right culture, values and employee engagement is as important as driving financial performance.

These are among the top themes emerging among banking executives surveyed for the KPMG 2021 CEO Outlook. This annual publication, which includes interviews with CEOs from some of the world's most significant businesses, provides a unique snapshot of the views of more than 1,300 CEOs in 11 countries and key industries. The following draws on the perspectives of 135 bank CEOs and offers a lens on how today's connected bank CEOs are plugged-in, people-first and purpose-led.

The road to renewal

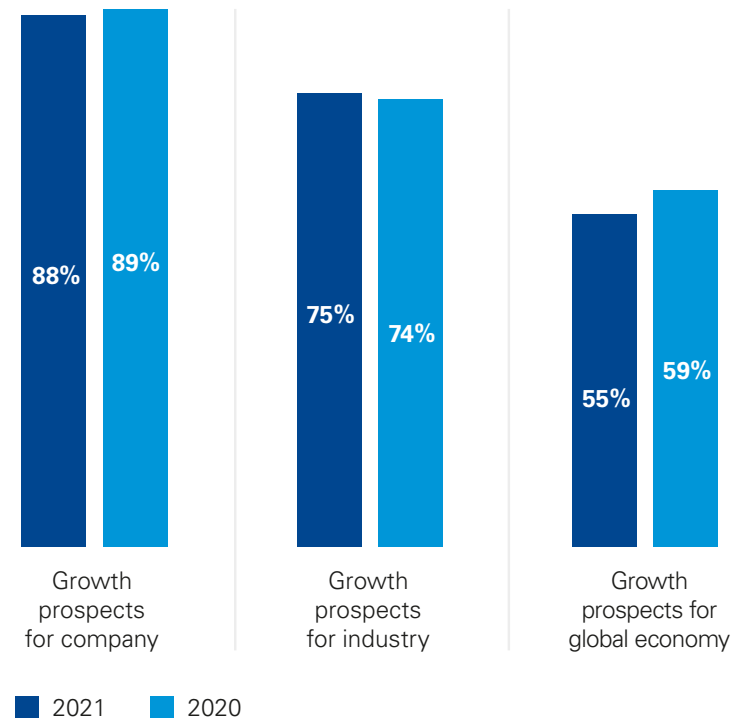
With economies on their path back to normal, bank CEOs' confidence levels have remained fairly consistent compared with 2020. They're optimistic about the growth prospects of their businesses and integrating their purpose and values into business strategies. As they look forward, a key focus will be embedding this purpose into the fabric of their organizations and, in return, providing long-term value to customers, employees and stakeholders.

A renewed sense of purpose

A majority of bank CEOs have reevaluated their purpose to better address the needs of their stakeholders. Over the next three years, **89 percent** of bank CEOs see purpose as having the greatest impact on capital allocation, partnerships and merger and acquisition (M&A) strategy, followed by driving shareholder return (both 84 percent), brand reputation and financial performance (both 83 percent).

Banks have been able to play a key role in supporting businesses and households during the pandemic given the sector's sound solvency. But there has also been a rise in stakeholder expectations. Leaders have found themselves under increasing scrutiny from all angles due to uncertainty posed by a range of issues, from climate change to social tensions. The need for stability is vital in this uncertain environment, and we see that **64 percent** of CEOs believe that their objective is to create long-term value for stakeholders — an increase from **55 percent**. This is also reflected in the **44 percent** of banking CEOs who are investing in digital training, development and upskilling to help ensure employees skills remain future focused.

Economic outlook (over the next three years)



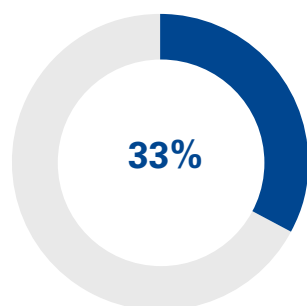
Source: KPMG International, 2021.

Engagement with people

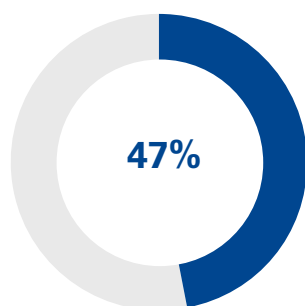
Financial services institutions are looking to invest in their people. CEOs identified their employee value proposition as the priority to achieve their growth objectives. They're willing to invest in upskilling employees, their well-being and building a culture where they're engaged and flexible working is encouraged. Global social factors and tensions have likely impacted businesses' priorities, with **47 percent** of bank CEOs focusing on employees' mental health and well-being and **33 percent** wanting to have a strong voice on 'the big issues that matter'.

In conjunction, CEOs recognize the need for flexible working, fostering a better work-life balance and downsizing their physical footprint. Attracting and retaining talent is tougher than ever and remuneration is not going to be the only factor impacting whether employees leave or remain.

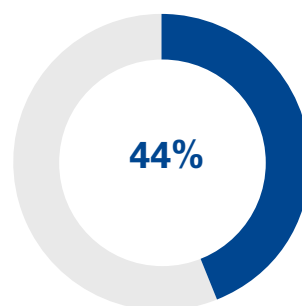
Success factors to ensure employees are engaged, motivated and productive



Having a strong voice on the big issues that matter



Focusing on employees' mental health and well-being



Investing in digital training, development and upskilling to ensure employees' skills remain future focused

Source: KPMG International, 2021.

“

The banking sector has been able to play a key role in supporting businesses and households during the pandemic. Our survey findings suggest global banking CEOs are confident in their ability to adapt to a changing customer and employee landscape and are looking to invest in their number one asset — their people.”

Francisco Uria

Global Head of Banking & Capital Markets
KPMG International

Growth strategies

With **88 percent** of CEOs confident in their own company's growth prospects, leaders want to address key challenges on their path to long-term growth. Bank CEOs are looking for growth strategies that include M&A, digital acceleration plans and environmental, social and governance (ESG) initiatives.

Digital acceleration

CEOs recognize the need to shift investment to digital opportunities and have an aggressive strategy to achieve first-mover or fast-follower status. Customer intimacy and the creative use of technology drive disruptive innovation. It's key for financial institutions to understand their customers — better than their competitors — and digital transformation is a significant component in achieving this. As a result, **26 percent** of bank CEOs plan to embed a comprehensive approach to data ethics and privacy in their organizations to help protect client data.

To make the experience better for the customer, banks also need to make it better for their workforce. In fact, **78 percent** of bank CEOs believe that a digital transformation strategy isn't sustainable without first looking at the stress levels of their employees. Frictionless service means a workforce that also has the best tools to help themselves and their customers.

As CEOs examine their growth and transformation objectives, **67 percent** placed more capital investment in buying new technology in 2021. This is likely correlated to the pace of digital transformation during the pandemic. Now that banks can see how quickly they actually can get things done, it has opened up the speed of execution and therefore the investment into new technologies to support it.

“

CEOs have embraced and deployed technological solutions to meet the needs of customers. It's important that this results in a step change in service that can only be provided by leveraging the data being processed and protected on behalf of the customer.”

Lisa Fernihough

Global Head of Advisory,
Financial Services
KPMG International

Strategies for growth

- **Mergers and acquisitions:** M&A also appear to be critical to achieve anticipated growth, with **56 percent** saying they have a high M&A appetite. This is a significant increase from 2020, largely in response to the changed markets during the pandemic to build new capabilities and pursue growth opportunities. Considering the interest rate environment and the cost to digitize, there's a need for financial institutions to scale — and the quickest path to digitalization is through acquisitions.
- **Industry consortia:** A majority (**68 percent**) of organizations also plan to join industry consortia focused on development of innovative technologies and increase investment in innovation processes in order to achieve the organization's long-term objectives.
- **Strategic alliances:** It's important to note that alliances and technology collaborations are the way of the future. In the past, banks built and customized their own solutions, which are often expensive, slow and unlikely to drive market advantage.
- **Assessing culture and values:** The combination of the pandemic and a workforce that's less interested in just money has shown the need for a different type of leader — one who's inclusive, empathetic and purpose-led.

Reevaluating threats to growth

CEOs are focusing on transformation priorities to build the capabilities needed to win in the post-COVID future. They're prioritizing cyber security and operational and supply chain resiliency to help minimize these increasing risks to growth. Tax, reputational and interest-rate risks were suppressed during the height of the pandemic (as governments, customers and banks all rallied together), but now they've come to the fore once again.

Greatest threats to growth

Threats to Banking in 2021

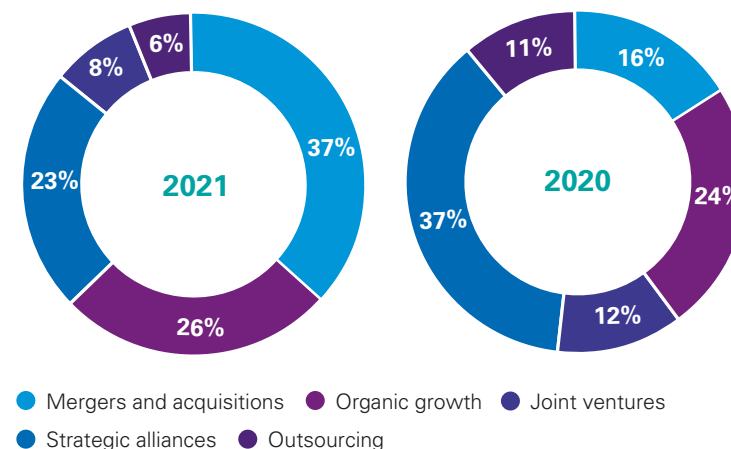
- 1 Cyber security risk
- 2 Tax risk
- 3 Regulatory risk
- 4 Reputational brand risk
- 5 Interest rate risk

Threats to Banking in 2020

- 1 Environmental/climate change risk
- 2 Emerging/disruptive technology risk
- 3 Cyber security risk
- 4 Return to territorialism
- 5 Operational risk

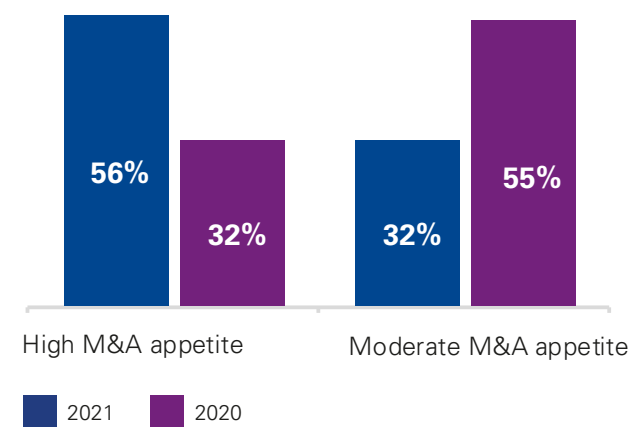
Source: KPMG International, 2021.

Strategies to achieve growth objective in Banking



Source: KPMG International, 2021.

Appetite for M&A



Source: KPMG International, 2021.

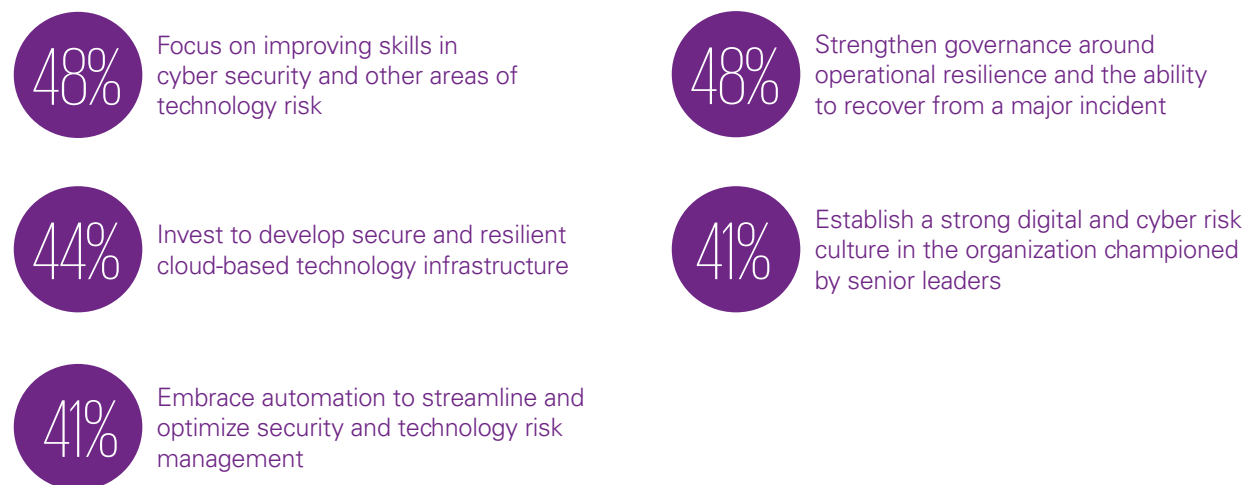
Cyber security a top risk

With the acceleration of digital transformation and remote working, cyber security risk was named the most significant threat to businesses in 2021. Recent high-profile cyber attacks are top of mind for bank CEOs, with nearly half recognizing the need to focus on improving skills in cyber security and other areas of technology risk.

Mindful of the top risk associated with growth, CEOs are strategizing to safeguard against major threats, including cyber threats, service disruptions from tech failures and reputational damage from data privacy issues over the next three years to build a cyber security culture in their organizations across the financial services sector. As banks move their systems to the cloud at an increased pace, **44 percent** of CEOs acknowledge the importance of investing in secure and resilient cloud-based technology infrastructure.

At the same time, operational issues experienced by banks and the broader financial service industry brought on by COVID-19 have driven many to focus on operational resiliency, with **48 percent** of CEOs indicating that they plan to strengthen their governance around operational resilience.

Actions to build digital resilience



Source: KPMG International, 2021.

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The pandemic accelerated the transition to online banking and contactless payments. Now, with a new wave of embedded finance, Banking as a Service and other financial technology, banks are doubling down on their cyber security capabilities to protect their customers and build their operational resilience.”

Peter Torrente
National Banking Leader,
KPMG in the US

Tax becoming a new risk priority

Bank CEOs believe tax risk is a top threat to their organizations' growth — and are more concerned than they were prior to the pandemic. Tax risk saw a rise of 13 percentage points from 2020, making it one of the significant threats in 2021, as international tax reforms (e.g. those led by the OECD) and domestic tax reforms (e.g. US tax reform) are having a greater impact on financial services.

Tax risk is at the top of CEOs' minds, with **75 percent** of bank CEOs believing that the global tax system is of concern to their organization's growth. This concern is driven by:

- dramatic changes to the international tax landscape, including the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS);
- wholesale domestic tax reform, such as that we are seeing in the US; and
- uncertainty driven by significant levels of audit activity by tax authorities around the world.

Additional risks

- **Supply chain:** COVID-19 has brought great challenges to the supply chain. While it doesn't crack the top five risks, nearly one-third (**31 percent**) of bank CEOs say their supply chains have been under increasing stress over the past 18 months. They also plan to take actions to mitigate future impacts, with **31 percent** saying that they will add new locations of input to make their supply chain more resilient and **24 percent** onshoring more inputs into the supply chain.
- **ESG:** Banking CEOs understand what stakeholder (and governmental) expectations are in relation to climate change, but they face key challenges to implement the strategy to meet these expectations. This includes an inability to access capital markets and the risk of reputational damage by not getting it right. In fact, **68 percent** of bank CEOs see major global challenges, such as income inequality and climate change, as a threat to company growth.

“

With tax risk at the forefront of banking CEOs' minds, there's growing public demand for information on the tax position of companies, as evidenced by the ongoing developments in relation to public country-by-country reporting in the European Union. ”

Robin Walduck

Global Head of Tax, Financial Services
KPMG International

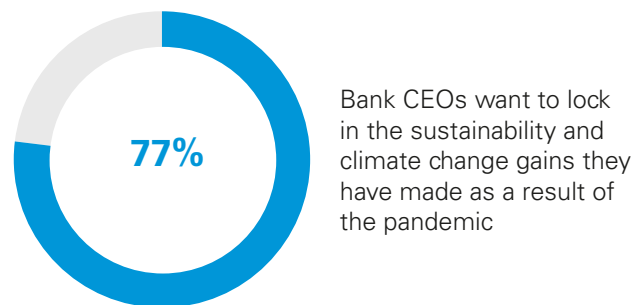
Guided by purpose

From fighting climate change to driving diversity, stakeholders expect companies to have a positive impact on a range of global issues. Bank CEOs understand the rising need to focus more on ESG priorities and stay connected to their purpose to create long-term value for stakeholders.

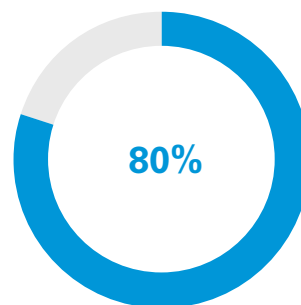
The ESG opportunity

With increased stakeholder pressure to build a better society, it's important to recognize the vast opportunities that exist around ESG and sustainability — not just risk. **Four out of five** bank CEOs are confident about their shift toward ESG in response to the pandemic. Bank CEOs are also looking to devote significant capital to becoming more sustainable, with **37 percent** planning to invest more than 10 percent of revenues in their efforts. While the focus has been predominantly on the environmental aspect, the social component has become increasingly important, with some banks reviewing their global human rights and modern slavery policies across their operations, supply chains and lending practices.

Focus on ESG during the pandemic



Bank CEOs want to lock in the sustainability and climate change gains they have made as a result of the pandemic



Bank CEOs are confident that the response to the pandemic has caused their focus to shift towards the social component of their ESG program



Public and regulatory expectations are rapidly changing, and organizations can no longer ignore this demand for transparency and accountability in relation to ESG. ”

Noeleen Cowley
Partner,
KPMG in the UK

Source: KPMG International, 2021.

Reporting, transparency and telling their story

With the ESG agenda on the rise, scrutiny of companies' ESG performance is also increasing. Organizations can't ignore the demand for transparency and accountability in relation to ESG. In 2021, a higher percentage of bank CEOs (**58 percent**) saw significant demand from stakeholders to provide reporting and transparency on ESG issues compared with 2020. At the same time, they highlighted their challenges in communicating their efforts to the stakeholders, with **44 percent** saying they struggle to articulate their ESG story.

Tying ESG to performance

CEOs still aren't convinced about the impact ESG programs have on their organization's financial performance. With respect to pay structure, only **19 percent** of bank CEOs expressed interest in having pay based on performance against ESG goals (in addition to traditional financial-performance goals). What's more, only **36 percent** mentioned that their company's ESG programs improve financial performance, while the remaining CEOs feel a neutral or reduced impact on driving returns.

ESG performance and reporting

In the absence of any global agreement on harmonized disclosures, a broad range of disclosure standards and frameworks have developed, which has made the collection of data and reporting more difficult. However, this will soon change as the newly created International Sustainability Standards Board (ISSB) develops IFRS® Sustainability Disclosure Standards to provide a global baseline and be focused on enterprise value.

Communicating ESG performance



Source: KPMG International, 2021.



ESG metrics are second only to financial indicators as boards measure performance. As banks work to communicate their ESG performance they will need access to more granular data and sophisticated tools to generate actionable insight.”

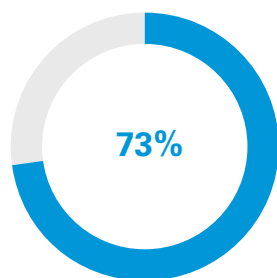
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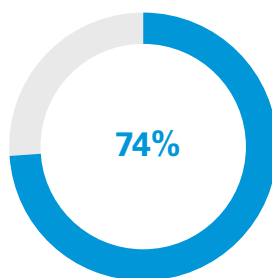
Putting people first to drive societal return

Over the past 20 months, the world has not only got faster as digital acceleration took hold, it has also become more divisive and fractious. In major economies, social tensions are on the rise. CEOs are cognizant of this public mood and the research shows they are ready to embrace the role that companies can play in driving total shareholder return and total societal return.

View around global challenges



of CEOs said they will be increasingly held personally responsible for driving progress in addressing social issues.



of CEOs believe they have resources to help fight global challenges.

Source: KPMG International, 2021.

Top of the CEO agenda

The [KPMG 2021 CEO Outlook](#) highlights a new sense of optimism in the boardroom. CEOs feel a strong connection to their organization's purpose and are looking to expand their business to emerge stronger than ever before.

There's a need for sustainable transformation that encourages long-term growth and the financial institutions of the future will need to be agile and innovative, while collaborating with stakeholders to ensure resilience and continue on their paths to growth.



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Environmental and social sustainability is the starting point and the premise of our growth.”

Hironori Kamezawa

President & Group CEO Mitsubishi UFJ Financial Group

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