KPMG 2023 Banking CEO Outlook

While carefully managing current uncertainty and risk, banking leaders are increasingly focused on opportunities in a changing world.

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Contents

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In this time of global economic and geopolitical movement, the world's banking leaders are facing a myriad of complex challenges. Among them, considerable market uncertainty, impacting their customers' financial health and behaviour, heightened supervision and increased regulatory capital costs, and rapid technological disruption, with the two-sided coin of new opportunity and risk. Despite these challenges, CEOs remain confident in their three-year outlook and they are taking a purpose-led and proactive approach to build organisational resilience and pursue pragmatic growth.

These are among the high-level findings from the KPMG 2023 Banking CEO Outlook, in which we surveyed 142 banking CEOs, to collect their perspectives of their business and the economic landscape over the next three years. We gained deep insights from this diverse cohort of banking leaders, who represent countries in the Americas, Europe and Asia (60 percent from the US, UK, Canada and Germany), are spread across the retail, commercial and corporate banking sub-sectors, with 71 percent hailing from organisations with revenues from US$0.5-$9.99 billion.

For example, while the findings indicate clear optimism in overall business growth, they point to a shifting slate of concerns and risks, an evolving approach to strategic planning and leadership, and a rising focus on delivering sound ESG strategies, while balancing the opportunities and unknowns posed by fast-emerging generative AI.

I invite you to delve deeper into these viewpoints in the following pages, as these global leaders share their thoughts on managing through a challenging landscape of economic, geopolitical, environmental, social and technological change.

Economic value creation

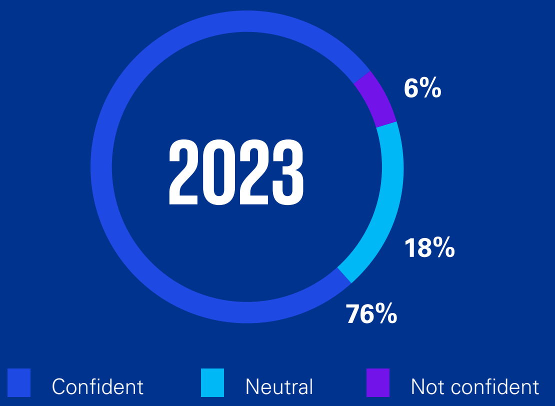
While the 2023 CEO Outlook reveals widespread confidence in growth among banking CEOs, their convictions have weakened year-over-year. For example, while confidence in growth prospects for the global economy over the next three years saw a marginal decline, from 72 percent to 70 percent, confidence in their industry's growth prospects declined significantly, from 84 percent to 76 percent. Similarly, CEO confidence in their company's growth over the next three years, fell from 82 percent to 76 percent.

This dampened confidence can be linked to the growing acceptance that political uncertainty, and predictions of short-lived, technical recessions in various markets, may prevail longer than forecasted a year ago.

> **The main sentiment among bank CEOs is cautious optimism. They feel quite able to navigate current uncertainty, thanks to the steps taken in recent years to strengthen governance and risk management. With solid management capability, capital and liquidity in place, everyone is looking toward growth possibilities.**
>
> **Francisco Uría,**
> Global Head of Banking and Capital Markets, KPMG International

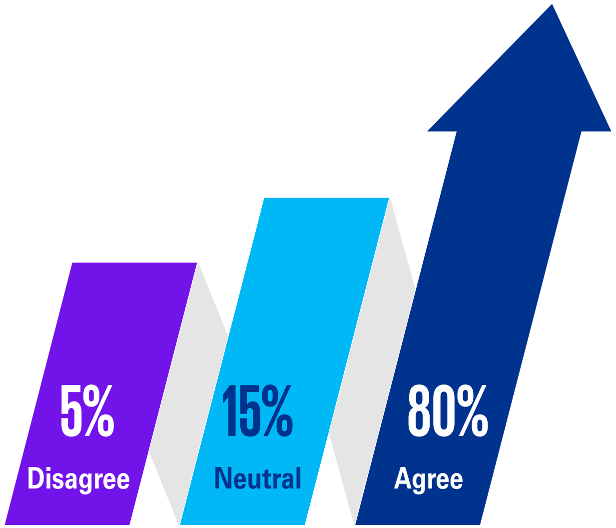
Level of confidence CEO's have in the following over the next three years:

Growth prospects for the industry



Although 80 percent of CEOs indicated a belief that rising interest rates and persistent inflation policies could prolong any potential recession, they expressed confidence in their organisation's outlook, with 89 percent forecasting positive earnings per year for the next three years, compared to 96 percent in 2022. They exhibited stable year-over-year confidence in their bank's headcount growth, with 87 percent anticipating internal hiring in the three years ahead.

Possibility of rising interest rates and tightening monetary policies prolonging any potential recession

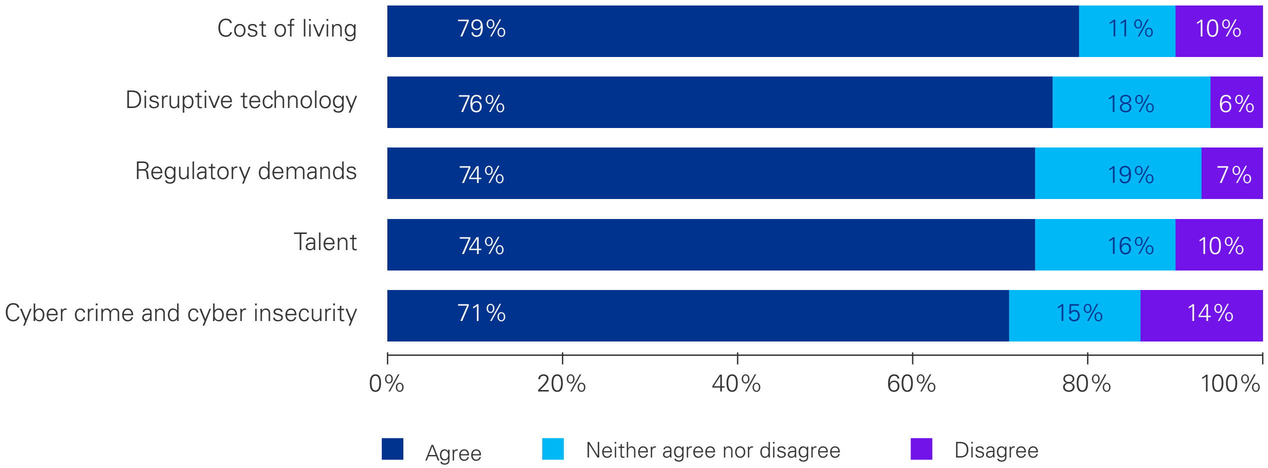


Eyeing top risks to growth

When asked to indicate the single largest risk to their organisation's prosperity over the next three years, a resounding 79 percent stated the cost of living. This reflects leaders' realisation that both their customers and their workforces are dramatically impacted by current economic conditions, resulting in both stalled borrowing and investing volumes, and significant wage inflation as the banks compete in a tight labour market to find and retain talent. Not far behind in the rankings of largest risks, CEOs listed disruptive technology (76 percent), regulatory demands (74 percent), talent (74 percent) and cybercrime (71 percent).

A year-over-year comparison of CEOs' perceived greatest risks to company growth suggests a shift in priorities among these executives. In particular, 'political uncertainty' and 'emerging/disruptive technology risk' moved up to the top ranks as major threats to banking, no doubt due to current geopolitical concerns. The rising profile of Generative AI and other technologies could also explain CEOs' increased concern over 'cyber security' and operational' risk. In contrast, concern declined notably from 2022 in regard to previous hot-button issues such as `interest rates', 'reputational/brand' risk and 'return to territorialism'.

Single most pressing concern for organisations today



Trusted purpose

Despite challenging economic conditions, and often polarising discourse surrounding the term 'ESG', banking CEOs continue to invest in this area. While they remain committed to honouring their bank's 'trusted purpose,' they are taking a more 'outcomes-based approach', with a focus on value creation and return on their investment. This viewpoint reflects bankers' growing realisation that they cannot ignore ESG, in light of both mounting regulatory requirements and the sizable economic opportunities that will emerge in the unfolding transition economy.

With an appreciation that an ESG strategy has become a requirement of their organisation, 63 percent of CEOs stated that they believe ESG is now fully embedded into their business as a means of value creation. They also expressed the view that their ESG strategy will have the greatest impact on building customer relationships (29 percent), shaping capital allocations, partnerships and M&A strategy (20 percent) and driving financial performance (17 percent).

In fact, 53 percent of those surveyed believe that they will see a significant rate of return on their ESG investments within three to five years, and 25 percent foresee that return in less than three years. These findings may correspond to recent efforts by many banks in mature markets to invest in ESG data capabilities and systems integration, enabling them to embed sustainability into the normal course of business decision-making, rather than treat it as a 'bolted on' reporting obligation.

Impact of ESG strategy

Building customer relationships	29%
Shaping our capital allocation, partnerships, alliances and M&A strategy	20%
Driving financial performance	17%
Attracting the next generation of talent	14%
Building our brand reputation	10%
Strengthening employee engagement and employee value proposition	6%
Driving total shareholder return	5%

Challenges on net-zero journey

Although CEOs share a solid commitment to ESG, they acknowledged the barriers they face in attaining their net-zero or similar ambitions. Almost a third (28 percent) of survey participants stated that the greatest obstacle to doing so is either the complexity of decarbonising their supply chains (particularly their lending or investment portfolios) or the lack of skills and expertise to implement solutions. A similar percentage (27 percent) pointed to lack of appropriate technology solutions.

This data reflects the fact that, while most banks have made net-zero commitments, they recognise that it is difficult to drive change and measure their progress, due to interdependencies with the overall economy, the pace of regulation, intricacies of transition in many sectors, and clients' readiness to begin the journey. Similarly, like employers across most sectors, banks struggle to source the necessary talent. In many cases, banks are now striving to train and upskill their existing workforce to develop the required ESG skills.

That said, CEOs remain resolute in their focus as they point to the many downsides of failing to meet stakeholders' ESG expectations. In particular, 27 percent opine that they will suffer recruitment challenges, and 17 percent feel that they will either encounter higher costs, face greater difficulty raising financing or be edged out by competitors.

> **It's encouraging that ESG is top of mind among bank CEOs since they must make investments today that can pay over longer horizons.**
>
> **With a growing viewpoint that banks must eventually make all finance sustainable, they need to engage with customers to help them on their transition journey. To do so, banks must deeply hardwire ESG into their organisation, think beyond short-term regulatory demands, to help achieve maximum compliance with minimum effort, and long-term benefit.**
>
> **Richard Bernau,**
> Global ESG Banking Lead,
> KPMG International

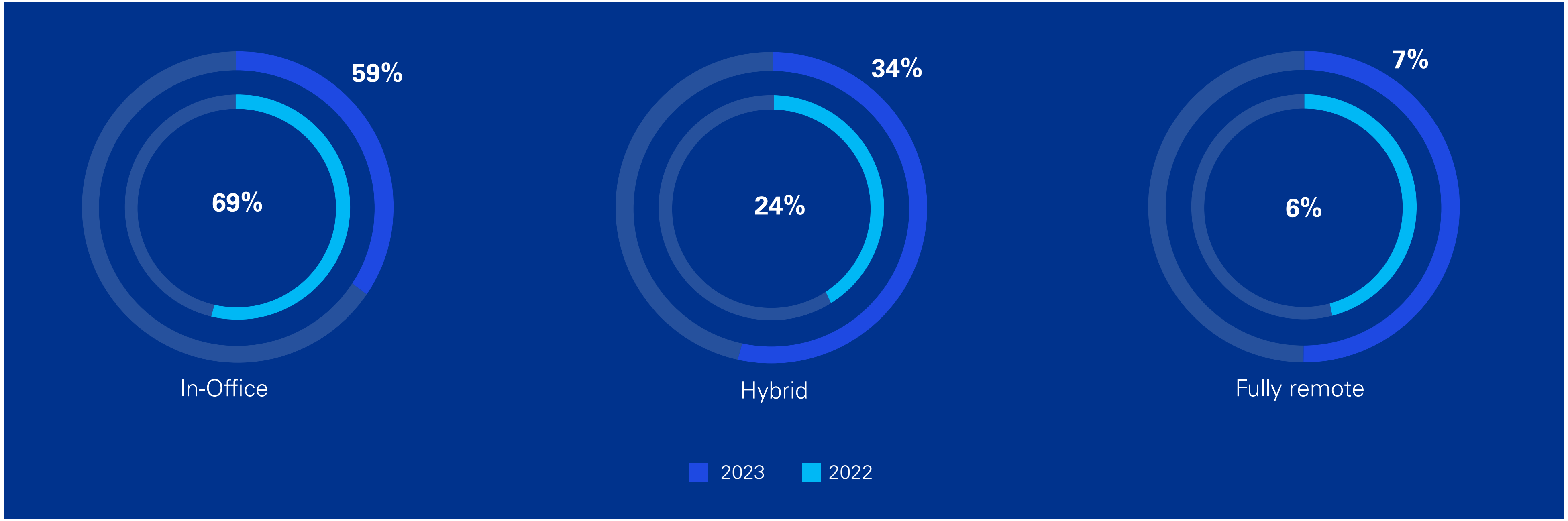
With this ESG imperative in mind, most CEOs appeared confident that they can address multiple and diverse ESG priorities. Almost half (48 percent) said that they will be able to tackle these challenges simultaneously, while 32 percent reported that they would emphasise their governance models and transparency protocols, in support of best practice reporting. These views suggest that, behind the scenes, many banks have made significant progress to prepare for impending public disclosure deadlines.

Interestingly, a growing number of banking CEOs are prepared to set an example to help drive social responsibility. Nearly three quarters (73 percent in 2023 versus 61 percent in 2022) said that they would take on a politically or socially contentious issue, even if their board was concerned about the risks of assuming such a public stance. Similarly, 73 percent (63 percent in 2022) said they would divest a profitable part of the business that was damaging the bank's reputation.

Steadfast in D&I efforts

Banking CEOs displayed a stable year-over-year commitment to Diversity & Inclusion (D&I). As in 2022, more than three-quarters (79 percent) of respondents in 2023 stated that gender equity in the C-suite will help them meet their company's growth commitments. Also, 78 percent affirmed that, as business leaders, they have a responsibility to drive greater social mobility. Nearly two-thirds (65 percent) agreed that progress on D&I has moved too slowly in the business world.

CEO expectations are also shifting somewhat in regards to their company work environment. When asked about traditional, office-based corporate employee roles, 59 percent now envision those positions to be in-office (down from 69 percent in 2022), and 34 percent expect those roles to be hybrid (up from 24 percent in 2022). That said, 86 percent of CEOs agreed that they are likely or very likely to reward those employees who make an effort to come into the office with favourable assignments, raises or promotions.



Strategic planning priorities

When asked about their top operational priorities for the next three years, an increasing number of CEOs highlighted their employee value proposition as a means to attract and retain the required talent. While CEOs have maintained a steady year-over-year commitment to improving the customer experience and achieving organic growth, they showed a marked, declining focus on advancing the digitalisation and connectivity of their company's functional areas.

Banking CEOs also exhibited an understanding that today's uncertain business environment demands a finessed leadership style. Nearly half, or 48 percent, stated that "micro-level decision-making is required for success," so that a CEO can respond quickly and confidently in time-critical circumstances. At the same time, 74 percent agreed that, "a collaborative leadership style, with shared management and operational responsibilities enables greater success." This alludes to CEOs' appreciation that, in the normal course of business, more diverse inputs, constructive collaboration and challenging perspectives will result in better decision-making for the bank.

> **This shift in priorities shows that banks around the world have been on this digital enablement journey for a decade now, and most of them are a long way down the path. At the same time, banking is still a 'people business' and most banks realise that employees are their best asset to deliver the right client experience, so they must pursue strategies to acquire and retain talent in a tough labour market.**
>
> **Geoff Rush,**
> Partner, Advisory & National Industry Leader, Financial Services,
> KPMG in Canada

Top operational priority for CEOs to achieve growth objectives in 2023 is employee value proposition to attract and retain the necessary talent **(29 percent)**. as compared to 20 percent in 2022.

Advancing the digitisation and connectivity of all functional areas witnessed decrease of **9 percentage point** in 2023, compared to 2022.

Additionally, **11 percent** CEOs believe that to achieve growth objectives improving the customer experience and organic growth is of importance.

In addition, 70 percent reported that ongoing uncertainty about the future has altered how they think about succession planning. This suggests that they are placing a greater focus on identifying, promoting and grooming the next generation of C-suite candidates.

Paths to growth

While most banking CEOs are displaying optimism about business growth and M&A potential in the next three years, their enthusiasm for inorganic growth is tempered somewhat, with many stating that they must first witness stable market conditions (28 percent) or the availability of financing (20 percent) before they prioritise inorganic growth opportunities. Their renewed appetite for M&A suggests that, while many banks held back on in-organic growth over the previous 12 months amid market uncertainty, they still see strategic opportunities, either for market consolidation, acquisition of fintech players or selective business line expansion.

Banking leaders also highlighted their priority areas for growth in the near term, with 54 percent ready to place more capital investment to acquire new technology, down slightly from 58 percent in 2022. An increasing number of CEOs (46 percent) expressed readiness to direct more capital investment to develop their workforce skills and capabilities, up slightly from 42 percent last year.

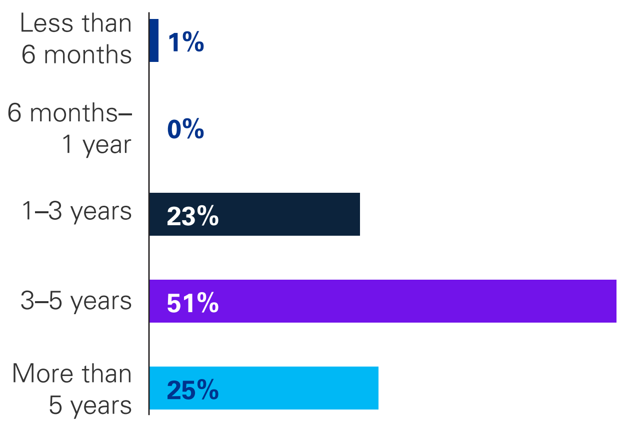
Pulse of disruptive technology and generative AI

Business leaders across sectors are focused on investing heavily in disruptive technology and bank CEOs are no exception, since 73 percent agree that generative AI (gen AI) is the most important investment opportunity for their company despite economic uncertainties. In fact, when asked to cite the top benefit of applying gen AI, they most often pointed to the promise of increased profitability, stronger fraud detection and cyber-attack response, and new product and market opportunities.

Banking CEOs are also cognisant of the challenges associated with implementing gen AI, with more than half (55 percent) noting technological capabilities and AI skills and the cost of implementation (55 percent) being highly challenging. A majority also noted that ethical challenges and a lack of regulation within the space are highly challenging.

That said, CEOs are highly optimistic regarding the benefits of gen AI, since 74 percent expect to see a return on investment within five years, and 23 percent are even more bullish, predicting a return within three years. This enthusiasm may be attributed to the fact that many banks have recently conducted intensive gen AI trials within their operations, from IT development to digitally-aided customer support. Many projects have achieved impressive results, suggesting that broader application can effectively augment and enable their worforces, bolster productivity and billow profitability.

Return on investment in the implementation of generative AI



Top benefit of implementing the use of generative AI in organisation

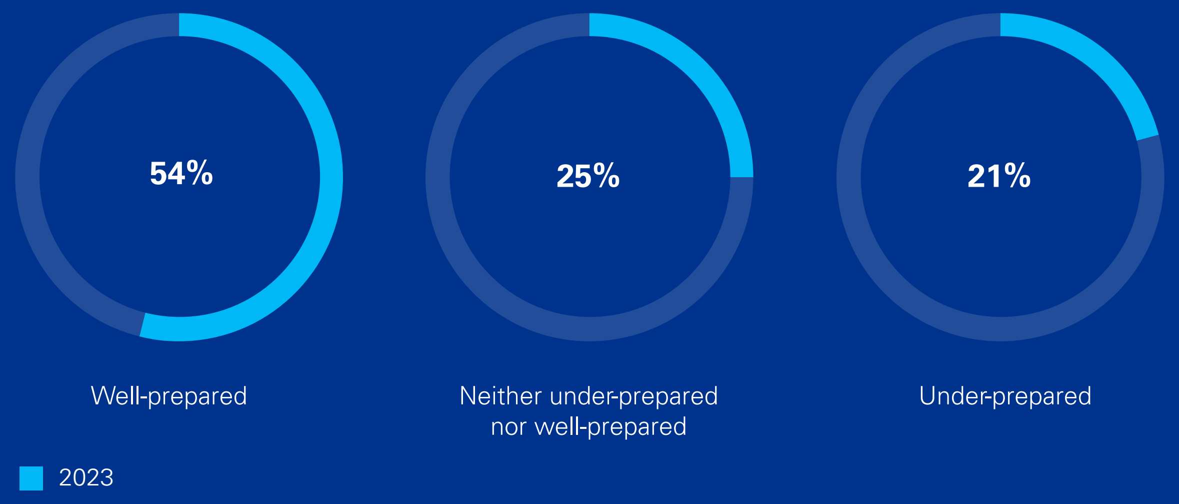
Increased profitability	19%
Fraud detection and cyber attack response	18%
New product and market growth opportunities	15%
Increased innovation	11%
Faster data analysis	11%
Increased efficiency and productivity (through automating routine operations)	10%
Job creation	10%
Personalised services/ customer engagement	6%

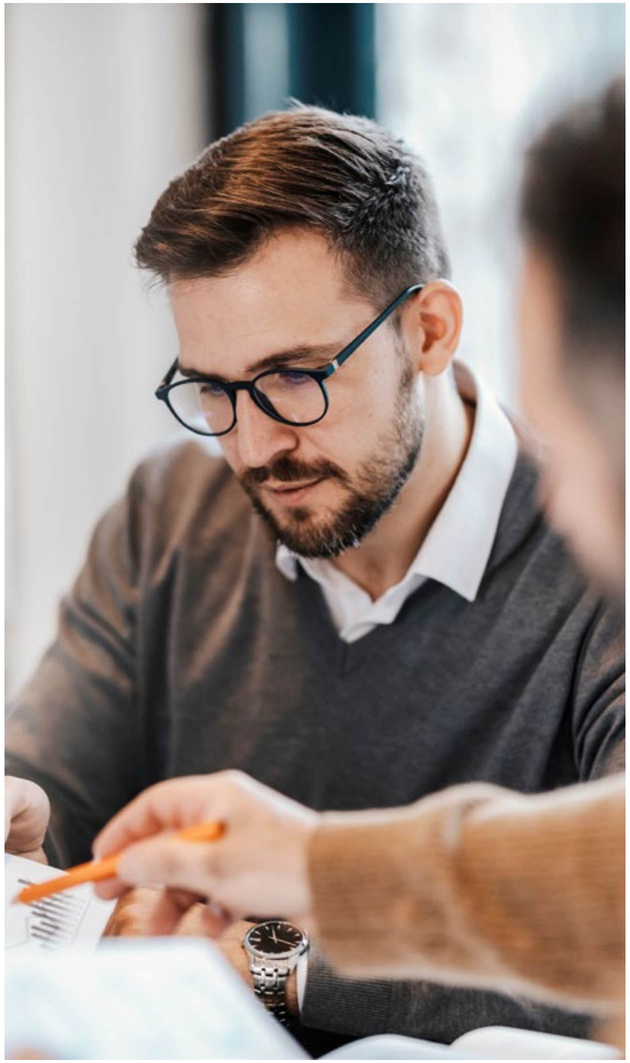
Readiness for cyber-attack

Although the 2023 survey shows that most bank CEOs feel well-prepared for a cyber-attack on their institution, it's no surprise that that confidence has declined year-over-year in light of the increasing frequency of cyber-attacks on the world's banks during 2023. While 66 percent of 2022 respondents said they were well-prepared for a cyber-attack in 2022, that number slid to 54 percent this year. Those describing themselves as under-prepared rose to 21 percent in 2023 compared to 10 percent in 2022.

When asked why they feel under-prepared for a cyber threat, 40 percent pointed to the increasing sophistication of attackers, 27 percent acknowledged a shortage of skilled personnel and 17 percent blamed a lack of investment in cyber defences. Fortunately, only a small minority (7 percent) reported that cybersecurity is not regarded as a business priority.

Cyber attack readiness





The way forward

Reflecting on the overarching viewpoints and priorities of banking CEOs in 2023, several clear themes have emerged.

Focusing on strategic growth

Banking leaders maintain a positive outlook for the next three years with an underlying confidence in their growth momentum for their organisation and an emphasis on digitalisation and talent retention. With a strong appetite for M&A, if the right conditions arise, most are prioritising expansion of their workforce skills and capabilities. And, in an admittedly more complex operating environment, CEOs are favouring a more collaborative and shared approach to leadership.

Delivering on their trusted purpose

With most stakeholders now expecting companies to have an ESG strategy embedded into their business models, bank CEOs appreciate the importance of investing to achieve their stated ESG and net-zero commitments, particularly in the areas of climate change and Diversity & Inclusion. Many are investing now to deeply hard-wire ESG across their business, to go beyond compliance demands and reap a longer-term return on investment.

Evolving view of the future of work

As banking leaders recognise the need to welcome more diverse talent, develop and retain specialised skills, and model values-based work cultures, their acceptance of hybrid work models is evolving, although they do want to encourage greater in-office work to help foster team cultures, communication and collaboration.

Bullish on gen AI, but mindful of challenges

Survey participants expressed a strong enthusiasm for the benefits of generative AI and are prioritising investment in these technologies. While they are highly attuned to the challenges that arise in tandem with technology adoption, including the increased risk and frequency of harmful cyber-attacks, they expect a clear return on these investments and recognise the need to fortify their institutional safeguards.

> **While it is natural in this environment for bankers to prudently manage risk, at the same time it is important to recognise that we are living in an unprecedented transition period, in terms of geo-politics, macroeconomic, technology and demographic factors, alongside energy transition and climate change. You must be brave enough to invest significantly in the things needed to help both your bank and your clients adapt, including digital technology, AI and ESG, because the world is going to be very different and you must be prepared for it.**
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Methodology

About the KPMG 2023 CEO Outlook

The 9th edition of the KPMG CEO Outlook, conducted with 1,325 CEOs between 15 August and 15 September 2023, provides unique insight into the mindset, strategies and planning tactics of CEOs.

All respondents have annual revenues over US$500M and one-third of the companies surveyed have more than US$10B in annual revenue. The survey included leaders from 11 markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, UK and US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications).

NOTE: Some figures may not add up to 100 percent due to rounding.

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