On today's bank board and audit committee agendas

With the influence and pace of technological changes, banks' board and audit committee agendas will need to continue to evolve adroitly.

Game-changing implications of escalating customer demands seem to occur every week, and with those changes come new developments in business operations; the nature and types of risk; people, talent, and culture issues; and a still-unsettled regulatory environment.

While striving to offer new products and services quickly—at prices that simultaneously build their top and bottom lines and that are acceptable to retail and commercial customers—banks are confronting issues that pose significant challenges and opportunities for industry boards and managers.

Fundamentally, board members, in the oversight roles, must have confidence that senior management can maintain the balance of near-term focus and agility with long-term planning and execution.

Drawing on insights from our ongoing interactions with bank directors and industry leaders, we've highlighted six items for industry board members and audit committees to consider going forward:

— The delivery of customized products and services for retail and commercial customers who have been conditioned to "right-now," personalized attention

— The recognition that connecting digital transformation with risk management and strategy is more important—and more challenging—than ever

— The potential for more mergers and acquisitions (M&A), as well as alliances and joint ventures with fintech organizations, which have become more influential with each passing month; issues relating to due diligence regarding such key issues as strategic fit, systems integration, talent, and culture—among others—will need to be thoroughly addressed for decisions to be made about whether M&As, joint ventures, or alliances make sense for the organization

— Assess, monitor, and reinforce culture as a strategic asset and critical risk

— Understand how the finance organization will reinvent itself and add greater value in this technology and data-driven environment

— The need to continue to refine boardroom discussions about how well the organization is managing cybersecurity and data privacy issues.

The delivery of customized products and services for retail and commercial customers who have been conditioned to "right-now," personalized attention

The power and pace of technological change, data analytics, and even social media—with its ability to deliver information immediately—has changed everything for banks. Among the key implications for banks are the ability to gather and analyze data in order to make well-reasoned decisions quickly; possess the tools and capabilities to implement changes; and understand the implications that current and potential customers (swapping information on social media) are having on their banks' practices, products, and services.

Some common discussion themes trending on social medial could be about comparisons regarding the time it takes to receive a personal/business loan, line of credit, or a mortgage. The combination of new technologies, new uses of the analysis of data, and the "know-me'' demands of customers must not be ignored if banks expect to thrive.

Boards must keep these issues high on their agendas, and have frequent conversations with management about how new tools, new operational techniques, and data analyses are being leveraged on a daily basis.

The recognition that connecting digital transformation with risk management and strategy is more important—and more challenging than ever

Advances in digital technologies such as cloud computing, robotic process automation, machine learning, artificial intelligence, and blockchain—and the speed of these advances—are disrupting business models and transforming how banking organizations do business. Traditional enterprise risk management processes may not be designed to address the disruptive risks posed by these digital advances, or to assess the continuing validity of key assumptions on which an organization's strategy and business model are based. Boards must help management reassess the organization's processes for identifying the risks and opportunities posed by digital advances and for assessing their impact on the company's strategy.

Does management have an effective process to monitor technology changes in the external environment that affects the industry? Does the process provide early warning that adjustments to strategy might be necessary?

Also, understanding how the bank collects, protects, analyzes, and uses data and complies with privacy laws has become table stakes for broader, potentially game-changing questions: What are the goals of the company's digital strategy and how can the use of big data and advanced analytics help drive the business? Help the organization test its strategic assumptions and keep sight of how the big picture is changing by connecting dots, thinking differently, and staying agile and alert to what's happening in the world. In short, digital disruption, strategy, and risk should be hardwired together in boardroom discussions.

The potential for more M&As, alliances, and joint ventures with fintech organizations, which have become more influential with each passing month

KPMG's research indicates that M&A is the top growth strategy among bank CEOs, just slightly ahead of strategic alliances and joint ventures.

While such collaborations often are undertaken to solve the underlying challenges of expansion, reduction of costs, and competitiveness, only time will tell whether these transactions will translate into lasting value.

In our view, M&A decisions must be made quickly—but with care. Moreover, a key element in any M&A deal will be to digitally enhance the new organization. Integration plans with a timeline of two or three years will be useless in an environment where significant changes in operations across the industry are being made in a matter of months—not years.

Boards and management should be watching these events closely. Actively assess the organization's current footing, and whether a move to consolidate would be beneficial.

Are there opportunities for innovation and business-process transformation, enhancing the customer experience through new platforms, and creating new economic value pools to take calculated risks and achieve smart growth?

The decision to build, buy, partner, or align is a complex one for management and the board. Factor in required investment, regional dynamics, and short- and long-term risks within and outside the organization.

As a result, organizations need to think through potential scenarios and related investment models. In thinking through the scenarios in the context of the organization's strategy and risk appetite, the board should consider issues such as: What is our competitive position in the marketplace? Do we have the required capabilities to take on risk and other banks' competencies? Would we have effective input in evaluating issues such as regulatory mandates, tax impacts, and other complex aspects governing joint ventures, and partnerships?

Assess, monitor, and reinforce culture as a strategic asset and critical risk

Corporate culture is front and center for companies, shareholders, regulators, employees, and customers—as it should be for every board. Headlines of sexual harassment, price gouging, sales practices, and other wrongdoing—with corporate culture as the culprit—have put boards squarely in the spotlight: Where was the board? And what is it doing to fix the culture?

Given the critical role that corporate culture plays in driving a company's performance and reputation—for better or for worse—we see boards taking a more proactive approach to understanding, shaping, and assessing corporate culture. Among the messages we hear: Have a laser focus on the tone set by senior management and zero tolerance for conduct that is inconsistent with the company's values and ethical standards, including any "code of silence" around such conduct. Be sensitive to early warning signs and verify that the company has robust whistle-blower and other reporting mechanisms in place and that employees are not afraid to use them.

Understand the company's actual culture (the unwritten rules versus those posted on the breakroom wall); use all the tools available—surveys, internal audit, hotlines, social media, walking the halls, and visiting facilities—to monitor the culture and see it in action. Recognize that the tone at the top is easier to gauge than the mood in the middle and the buzz at the bottom. How does the board gain visibility into the middle and bottom levels of the organization? Do employees have the confidence to escalate bad behavior and trust their concerns will be taken seriously?

Make sure that incentive structures align with strategy and encourage the right behaviors, and take a hard look at the board's own culture for signs of groupthink or discussions that lack independence or contrarian voices. Focus not only on results, but also on the behaviors driving them.

Understand how the finance organization will reinvent itself and add greater value in this technology- and data-driven environment

Over the next two years, we expect finance functions to undergo the greatest technological transformation since the 1990s and the Y2K ramp-up. This transformation will present important opportunities for finance to reinvent itself and add greater value to the business. As audit committees oversee and help guide finance's progress in this area, we suggest several areas of focus.

First, recognizing that the bulk of finance's work involves data gathering, what are the organization's plans to leverage robotics and cloud technologies to automate as many manual activities as possible, reduce costs, and improve efficiencies?

Second, how will finance use data and analytics and artificial intelligence to develop sharper predictive insights and better deployment of capital? The finance function may be well-positioned to guide the company's data and analytics agenda—and to consider the implications of new transaction-related technologies, from blockchain to cryptocurrencies.

As historical analysis becomes fully automated, the organization's analytics capabilities should evolve to include predictive analytics, an important opportunity to add real value.

Third, as the finance function combines strong analytics and strategic capabilities with traditional financial reporting, accounting, and auditing skills, its talent and skill sets must change accordingly. Is finance attracting, developing, and retaining the talent and skills necessary to deepen its bench strength and match its evolving needs? It is essential that the audit committee devote adequate time to understand finance's transformation strategy.

The need to continue to refine boardroom discussions about how well the organization is managing cybersecurity and data privacy issues

Cyber threats continue to grow more sophisticated and aggressive, with implications for nearly every facet of business. Hacks punctuate the new reality that any organization on the grid is vulnerable. Boardroom discussions should be moving beyond prevention to detection, containment, and response—and to addressing cybersecurity as an enterprise-wide business issue that affects strategy, compliance, product development, M&A, expansion into new geographies, and relationships with vendors, suppliers, and customers. A robust and frank boardroom dialogue is vital to helping the company learn to live with cyber risk and making cybersecurity a core competency across the business.

How frequently is the maturity of the company's cybersecurity risk management framework evaluated?

How is the company keeping up with regulatory changes and new legal requirements? Is the company staying abreast of industry practices and connecting with law enforcement?

Does the company have an incident readiness and response plan that has been reviewed and tested? Is the board getting the information it needs (cyber dashboard) to oversee cybersecurity efforts?

What risks do the use of big data pose, and who is responsible for making decisions about the collection and use of data? Europe's recently enacted General Data Protection Regulation and other data privacy rules such as California's Consumer Privacy Act should prompt rigorous assessments of companies' data practices. Indeed, with data privacy linked so tightly to trust and reputation, a running reality check is essential: "Just because we can doesn't mean we should." Furthermore, the board should be asking management—on a regular basis—about lessons learned from previous cybersecurity episodes, and how the banks are leveraging those experiences to better compete in the evolving marketplace, where cyber threats are a continuous business issue.

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