

2020 CIO Survey

Banking & Capital Markets industry insights



IT in the new reality for banking & capital markets

Through the height of the COVID-19 pandemic, the banking and capital markets sector played a pivotal role. Financial institutions were key to the rapid delivery of government stimulus programs, enabling businesses and individuals to access liquidity and manage finances — and did so while making profound changes to their own normal ways of working, quickly scaling digital channels for customers and transitioning to a remote workforce as branches and offices closed.

But while demand for banking services has remained as high as ever, the outlook has distinct operational challenges. The majority of organizations see COVID-19 impacting their bottom line in the near to medium term. Headwinds from low interest rates, higher anticipated credit losses as business failures and unemployment levels rise, and with lines of businesses within banking and capital markets recovering at different rates (e.g., retail vs investment banking) — digital transformation has become an urgent necessity to increase operational efficiencies, create scalability, and build streams of data. Forty-seven percent of banks expect to transform to re-emerge in their recovery path in the new reality — needing to transform operating models to emerge stronger and more in line with changed consumer priorities. Digital leaders in this sector perform 24 percent better than competitors on operational efficiency through investments in automation of key workflows and 20 percent better in customer experience through investments in digital channels such as mobile banking and websites. Banks must maintain the gains made during COVID-19 in customer-centric, seamless, and secure digital customer services by expanding their offerings and platforms as well as monetizing data. In the middle and back office functions, banks may focus on extending their digital transformation through targeted investments in automation and optimization.

Board priorities and investment

In such a highly competitive space, banks and capital markets' strategic IT priorities of operational efficiency, digitally enabled customer, and agility and speed to market pave their path to the new reality. Companies in this sector are looking to invest in automation (78 percent) and managed services (49 percent) as key enablers to set up their digital backbone long-term and build resilience to Black Swan events such as experienced during the crisis. In addition, banks and capital markets continue investing in security and privacy and customer experience and engagement to maintain customer trust, loyalty and confidence.

Top three business issues that management boards are looking for IT/technology to address as organizations emerge from COVID-19: Banking & Capital Markets vs. overall

Banking & Capital Markets

- 1. Improving operational efficiency
- 2. Improving customer engagement
- 3. Improving agility and speed to market

Overall

- 1. Improving operational efficiency
- 2. Improving customer engagement
- 3. Enabling the workforce

Three most important technology investments in light of the new reality:

Banking & Capital Markets vs. overall

Banking & Capital Markets

- 1. Infrastructure/Cloud
- 2. Security and privacy
- 3. Customer experience and engagement

Overall

- 1. Security and privacy
- 2. Customer experience and engagement
- 3. Infrastructure/Cloud

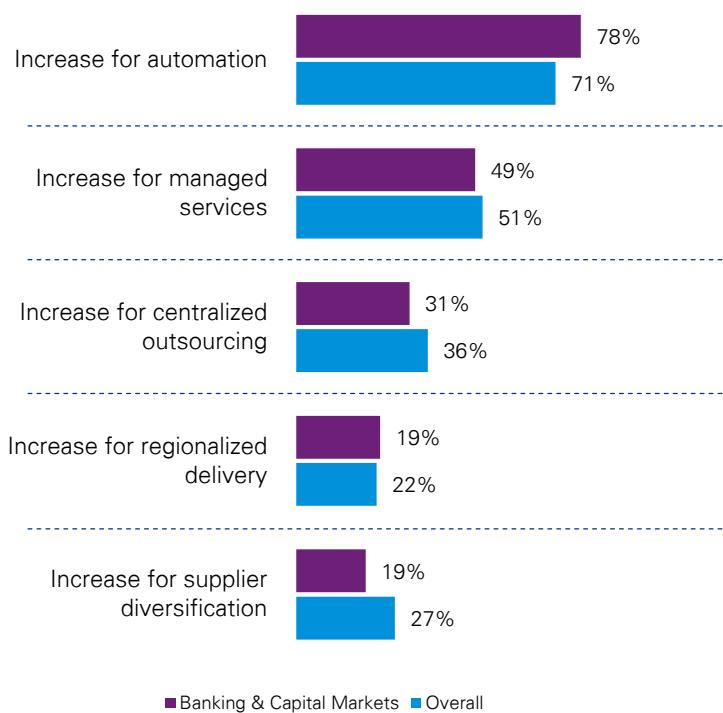
Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

Strategy and operating model

Prior to COVID-19, companies in this sector had been among the leaders in technology-led transformation. COVID-19 forced banking and capital markets to accelerate faster to quickly scale their digital channels to all of their customers, delivering across a digital platform of integrated data, processes and technology. Barriers to digital transformation — such as siloed structures and systems, inability to scale enterprise cloud, unclear vision from the top, or lack of advanced skill sets — posed a challenge for organizations who had not previously invested at scale. Meanwhile, digital leaders in this sector gained a clear advantage, being significantly better on key metrics such as operational efficiency (59 percent vs 36 percent), time to market for new product or service offerings (42 percent vs 19 percent), and customer experience (49 percent vs 29 percent), underlining a gulf that could be forming.

Expected change to service delivery model:

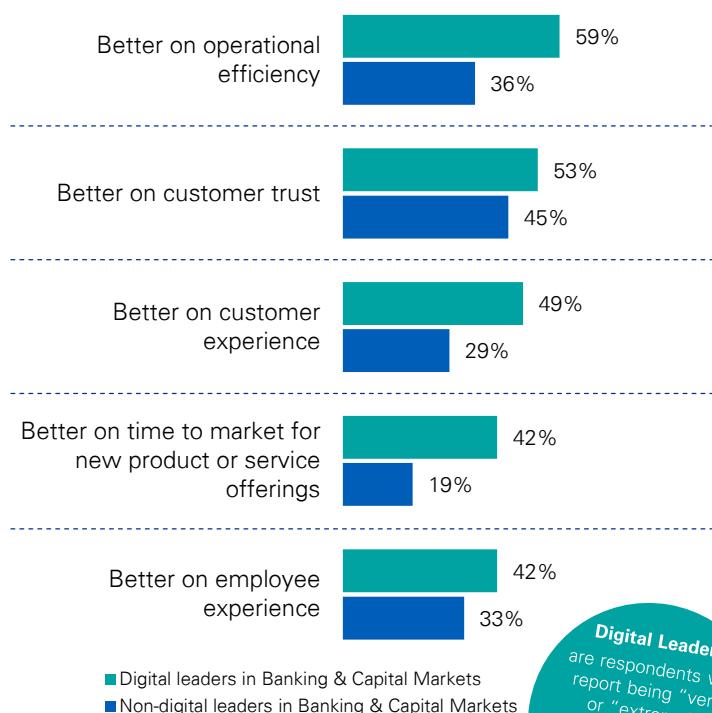
Banking & Capital Markets vs. overall



Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

Organizations performing 'better' or 'significantly better' than competitors on the following metrics:

Digital leaders vs non-digital leaders in Banking & Capital Markets

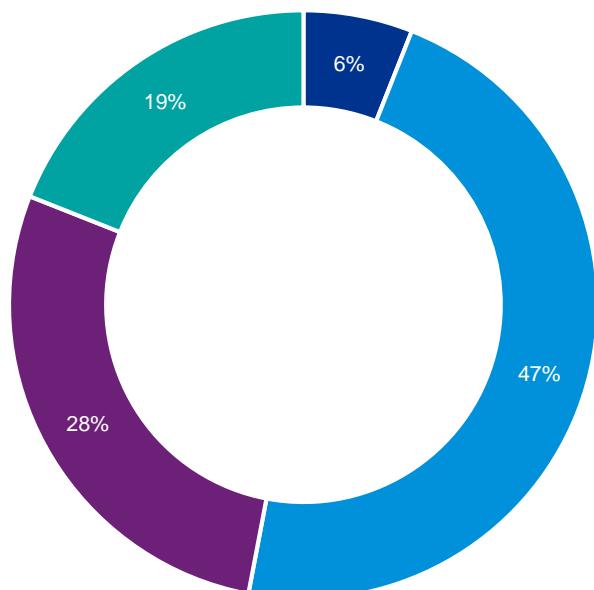


Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

Digital Leaders
are respondents who report being "very" or "extremely" effective at using digital technologies to advance their business strategy

Four economic recovery paths:

Banking & Capital Markets



Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

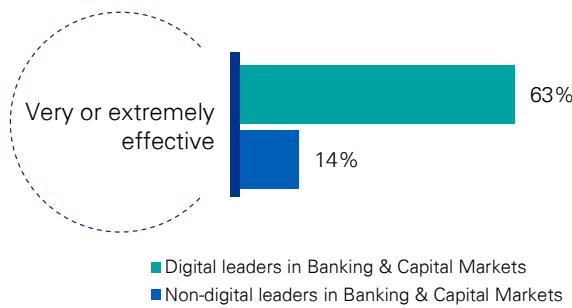
- **Hard reset** — companies that struggle to recover from COVID-19 due to 'permanently' lowered demand for offerings, insufficient capital to ride out extended recession, and/or poor execution of digital transformation.
- **Transform to re-emerge** — companies that will recover but along a protracted path requiring reserves of capital to endure and transform operating models to emerge stronger and more in line with changed consumer priorities.
- **Surge** — companies that scale post-COVID-19 as consumer behavior that was altered during the crisis is sustained in their favor. Investors sense their potential to lead and provide capital to scale aggressively during recovery.
- **Modified business-as-usual** — companies seen as daily essentials will suffer effects of the consumer shutdown recession but are expected to recover more quickly as consumer demand returns in similar volumes.

Delivering value at speed

Connectivity between front, middle, and back office is vital for banking and capital markets businesses to deliver value at speed. Looking forward, rapid responsiveness to market signals and customer demands is essential. Ongoing insights from digital investments will be needed to prevent companies in this sector from becoming disintermediated by new fast-emerging, platform-based service providers coming largely from the technology sector. It is striking how far ahead digital leaders are compared to non-digital leaders in banking and capital markets. Digital leaders exceed their competitors across every key metric — effectiveness at pivoting and scaling digital channels dwarfs their competitors (63 percent vs 14 percent) and they are far superior at collecting the valuable data needed to be responsive and customer-centric (62 percent vs 22 percent).

Organizations that are 'very effective' or 'extremely effective' at pivoting and scaling digital channels to meet new customer demands and expectations:

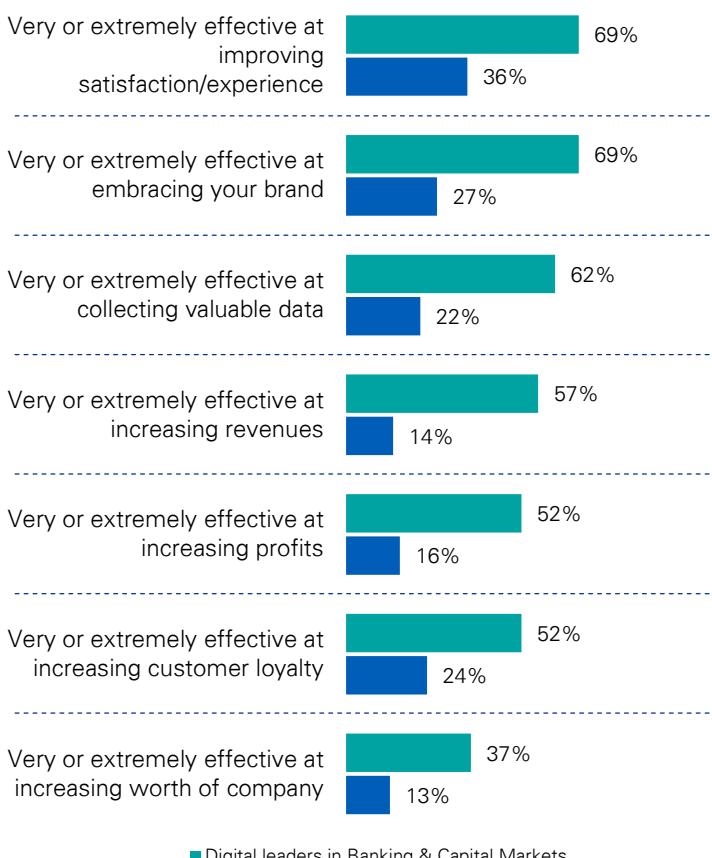
Digital leaders vs non-digital leaders in Banking & Capital Markets



Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

Digital offerings to customers that were 'very effective' or 'extremely effective' at the following:

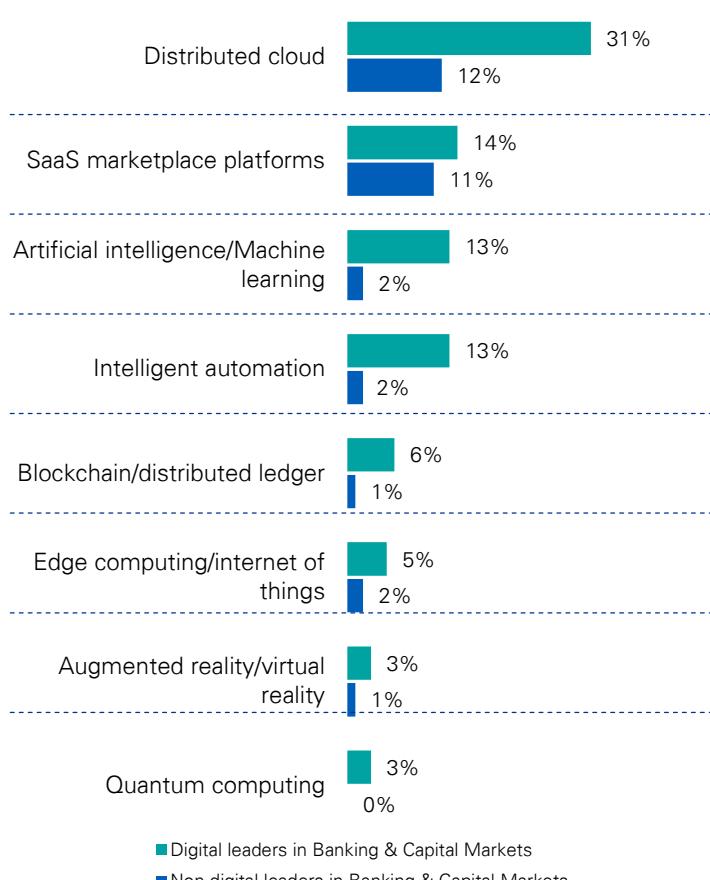
Digital leaders vs non-digital leaders in Banking & Capital Markets



Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

Large-scale implementations of emerging tech:

Digital leaders vs non-digital leaders in Banking & Capital Markets



Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

People and culture

With so much resting on technology, motivating and engaging the IT team in a more remote environment will be critical. Universal factors such as culture and leadership (44 percent) and good remuneration (43 percent) are seen as key — but it is notable that the purpose of the organization (25 percent) is also viewed as a top item, while it doesn't feature on a cross-sector basis. COVID-19 has highlighted the growing importance of corporate values and purpose including the ESG agenda, and this seems to resonate particularly strongly in banking and capital markets — for employees as well as customers and stakeholders. The top skills shortage is cyber security (34 percent) — as is true across sectors — but agile (24 percent) and cloud (23 percent) capabilities also stand out for companies in this sector, underlining their relative maturity versus other sector groups.

Most in demand skills:

Banking & Capital Markets vs. overall

Banking & Capital Markets

-  Cyber security
-  Agile methods
-  Cloud
-  Organizational change management

Overall

-  Cyber security
-  Organizational change management
-  Enterprise architecture
-  Technical architecture
-  Advanced analytics

Top factors in engaging and retaining key technology talent in the new reality:

Banking & Capital Markets vs. overall

Banking & Capital Markets

-  1. Strong culture & leadership
-  2. Good remuneration
-  3. Career progression opportunities
-  4. Purpose of organization
-  5. Work location and remote work opportunities

Overall

-  1. Strong culture & leadership
-  2. Good remuneration
-  3. Career progression opportunities
-  4. Work location and remote work opportunities
-  5. Training, development, & reskilling opportunities

Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

54% in banking & capital markets believe
COVID-19 created a culture of inclusivity in the **technology team**

More than half in banking & capital markets believe **promoting diversity** improves engagement with the business, trust and collaboration, access to the right skills, creating customer focused products, innovation, and risk tolerance

Proportion of enterprise that will remain predominantly working from home post COVID-19:

Banking & Capital Markets vs. overall



Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

The rise of cyber

With COVID-19 causing the mass relocation of office workers from corporate networks to studies, living rooms and kitchen tables around the world, organizations' attack surfaces also dramatically grew. As a result, more than four in ten organizations have experienced an increase in cyber security incidents — with phishing (81 percent) and malware attacks (55 percent) the most prominent for banks and capital markets. A laser focus on cyber security, as well as risk and control frameworks, must become embedded in business as usual as more processes in this sector are digitized. We may also see some offshore processes that are critical in the risk function (e.g., deploying system updates, changes, and new releases) moving to locations that have stable hybrid cloud infrastructure and security even in unforeseen times of crisis.

Organizations that experienced an increase in security or cyber incidents due to remote working

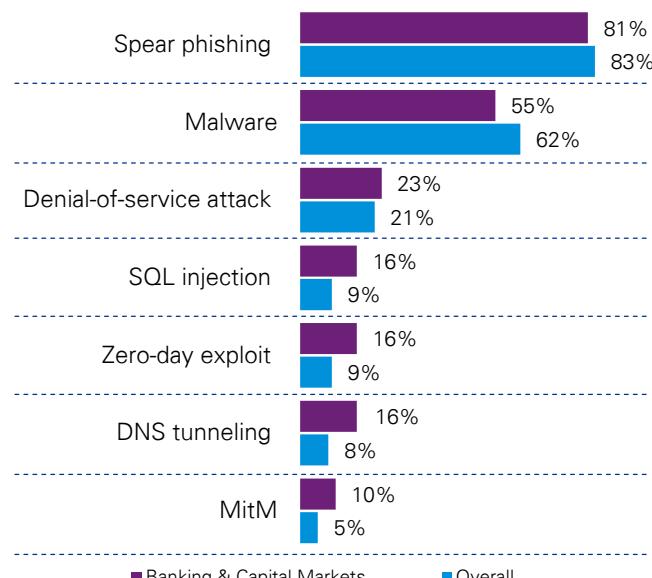
Banking & Capital Markets vs. overall



Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

Increase in types of attacks due to remote working:

Banking & Capital Markets vs. overall



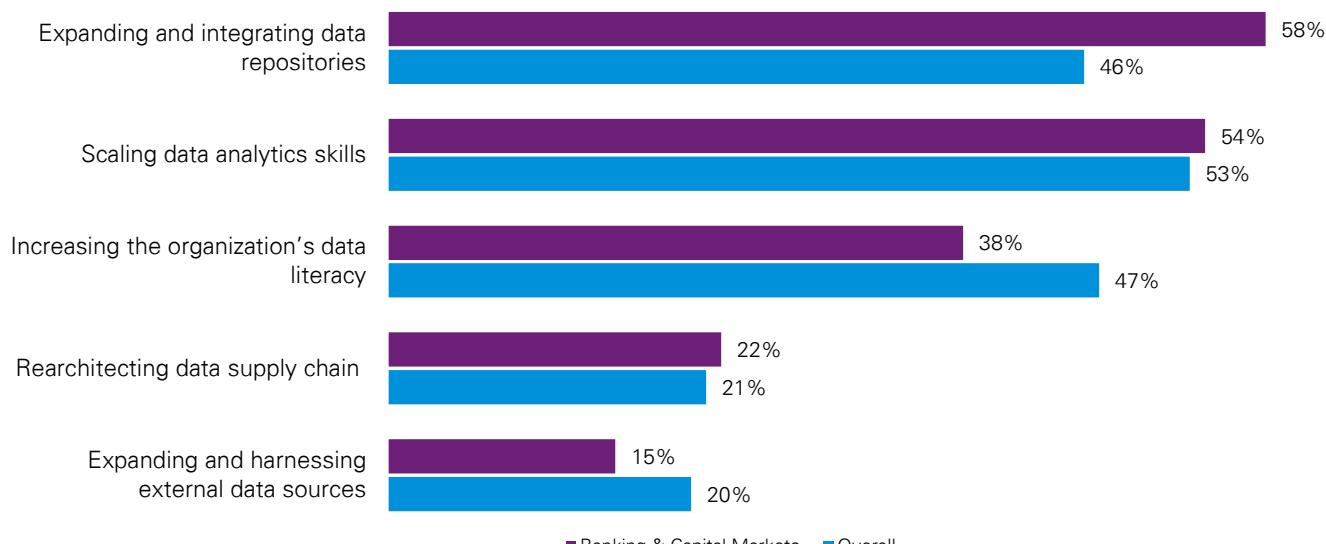
Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

Analytics and insight

Leveraging data effectively is a crown jewel priority for banks and capital markets: to develop differentiated and personalized products that truly reflect customer demands or predict customer needs, to gather information across distribution channels to drive cross-selling opportunities and inform go-to-market strategies, and to ensure compliance with regulatory requirements. Banks and capital markets' focus on expanding and integrating data repositories (58 percent) is significantly higher than the cross-sector average (46 percent) and reflects their need to effectively bring together the huge volumes of rich data they hold. Smarter approaches, with increased data and analytics capabilities, could be a key differentiator for commercial success.

Top priorities for organizations' data strategy:

Banking & Capital Markets vs. overall



Source: 2020 Harvey Nash/KPMG CIO Survey, KPMG International

What now?

Changing consumer patterns results in structural changes to banking and capital markets as the increased demand for digital products and services continues to grow. With the increase in digital channels made available to customers in response to the pandemic, companies in this sector now focus their attention to transforming the middle and back office to create a fully integrated digital platform in the new reality — ready for the long-term when employment returns to pre-COVID-19 levels and consumers begin to purchase new homes, buy cars, travel, and increase retail spending levels.

How KPMG can help

While KPMG firms are some of the largest providers of services to banking & capital markets organizations globally, we take a boutique approach to client issues with a focus on flexibility, adaptability, and innovation. We recognize that there are many on-ramps to supporting IT transformation and we've tailored our services accordingly:

Transform the business

- Strategy and operating model
- Organizational design
- Enterprise architecture
- Portfolio planning
- Merger and acquisition
- Integration and separation

Run the business

- Scaling agile
- Product management
- DevOps tooling
- IT financial management
- IT service management
- IT asset management

Moderhize and protect

- Cloud strategy
- Data center strategy
- Continuity and resiliency
- Workplace transformation
- Network modernization
- Cyber, risk, and compliance

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