2022 Banking CEO Outlook

Banking leaders are focused on interest rate and reputational risks.

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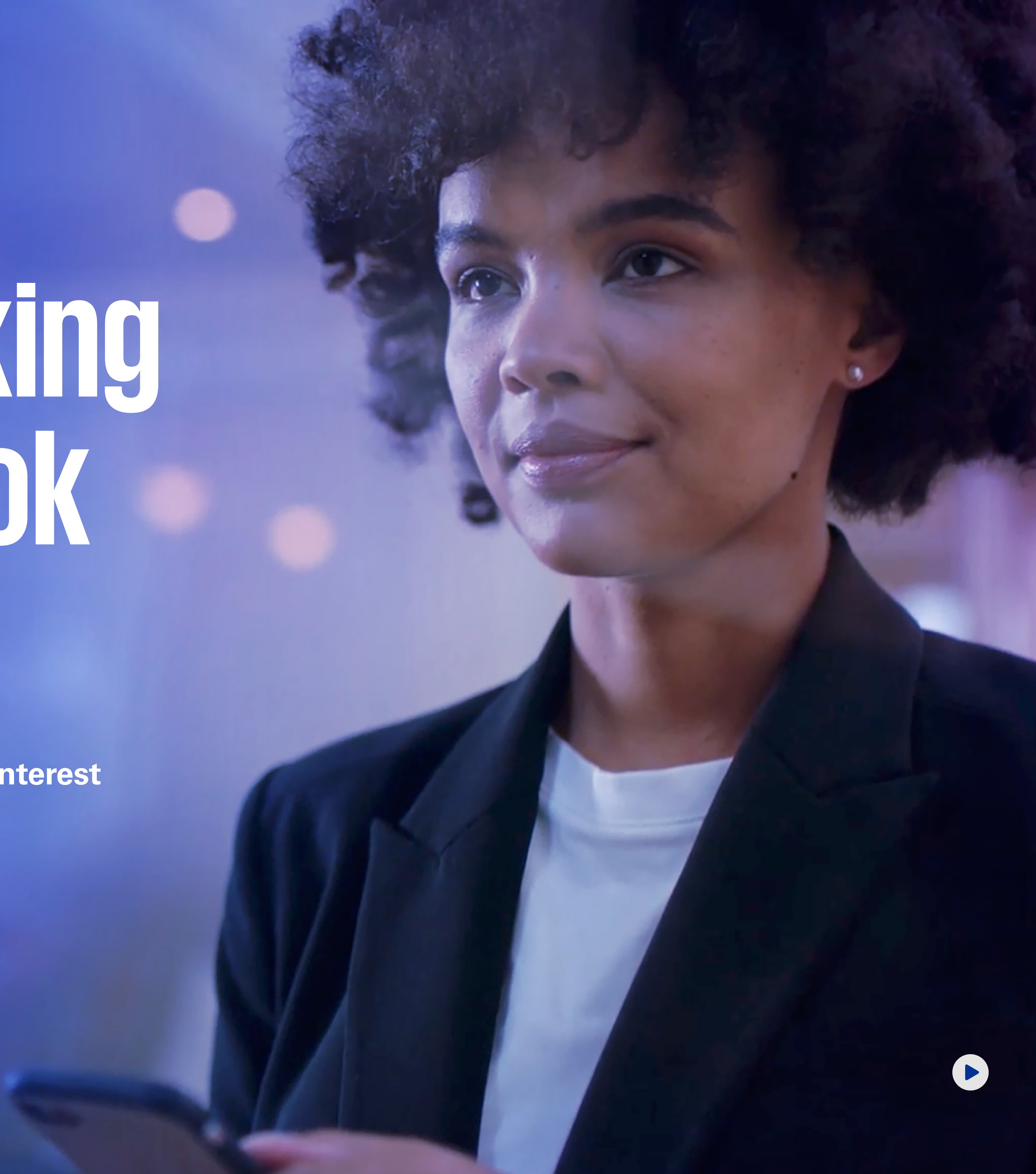

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In a year of upheaval caused by geopolitical tensions, the ongoing pandemic and an uncertain economic climate, banking CEOs face challenges and opportunities amidst the sector's ongoing transformation. As part of our 2022 CEO Outlook, we surveyed 141 banking CEOs, gathering their insights and perspectives into the business and economic landscapes over the next 3 years.

Banking CEOs pinpointed interest-rate and reputational risks as the top two threats to their organisation's growth over the next 3 years, but also expressed optimism over their company's growth prospects. This is a shift from 2021, when banking CEOs felt cyber security and tax risks were the greatest threats to their organisation's growth.

Here's more on what banking CEOs had to say as the sector continues to navigate an ever-changing marketplace.

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The 2022 CEO Outlook draws on the perspectives of 1,325 global CEOs across 11 markets to provide insight into their 3-year outlook on the business and economic landscapes. The survey also reveals shifts in strategy and viewpoints from the KPMG CEO Outlook Pulse Survey, conducted ahead of the Russian government's invasion of Ukraine.

The economic outlook

While **85 percent** of banking CEOs believe a recession is likely in the next 12 months, **59 percent** believe the recession will be mild and short and **71 percent** of those CEOs have plans in place to deal with it. And when asked about their most pressing concern for their organisation today, pandemic fatigue, regulatory concerns and economic factors (e.g. rising interest rates, inflation and an expected recession) came out on top.

Banking CEOs are ready and prepared to weather current geopolitical and economic challenges while still anticipating long-term global growth. CEOs are exploring how they can mitigate recessionary impacts to plan for this economic disruption. To hedge against an anticipated recession, **52 percent** of CEOs have taken steps to boost productivity and **47 percent** are reconsidering investment strategies in the coming 6 months to cope with any unprecedented geopolitical issues.

85%

believe there will be a recession in the next 12 months

70%

think a recession would upend anticipated growth over the next 3 years

59%

say an anticipated recession will be mild and short

Source: KPMG 2022 CEO Outlook

> **Banking CEOs face challenges and opportunities going into 2023, even as they grapple with concerns around rising interest rates and new monetary policy. In a year of uncertainty caused by geopolitical tensions and the ongoing pandemic, it's reassuring to see high levels of confidence among banking executives in their prospects for growth over the next 3 years.**

Francisco Uría
Global Head of Banking and Capital Markets
KPMG International

A sense of optimism

Although banking CEOs are readying for a recession, many also report feeling optimistic about growth prospects over the next 3 years — for the economy more broadly, the banking sector and their companies. **Seventy-two percent** indicated they feel either confident or very confident about the global economy's growth potential, compared with **55 percent** in 2021. What's more, **83 percent** said they feel confident or very confident about the sector's growth prospects, compared with **75 percent** in 2021.

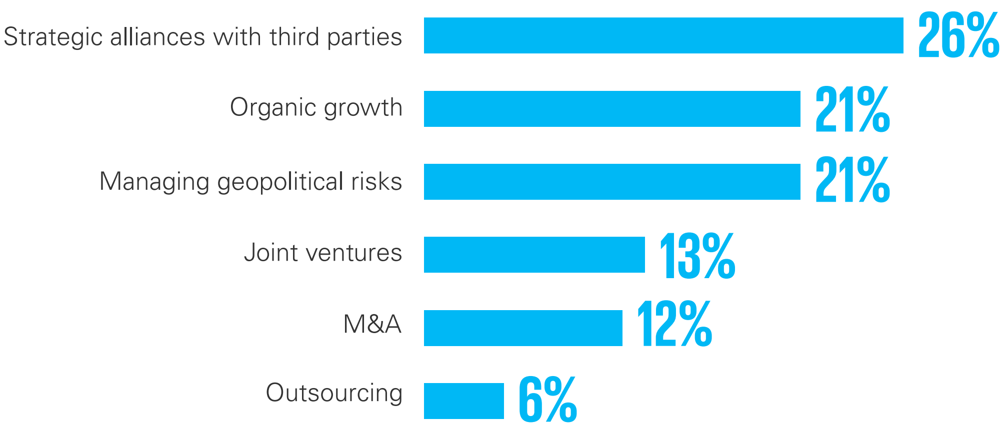
Geopolitical uncertainties will likely continue to impact strategies, with **87 percent** of banking CEOs reconsidering their investment strategies and adjusting or planning to adjust their risk management procedures.

Rising M&A appetite

Strategic alliances (**26 percent**), organic growth (**21 percent**) and managing geopolitical risks (**21 percent**) top the list of the most important strategies for achieving organisational growth objectives over the next 3 years.

Banking CEOs are also increasingly enthused about M&A opportunities, particularly compared to 2020. More than half (**55 percent**) indicated their appetite for M&A is high and that their companies are likely to undertake acquisitions that will significantly impact their business. Their main strategies for growth include building strategic alliances with third parties (**26 percent**) followed by managing geopolitical risks (**21 percent**). This trend of increased M&A activity is more apparent in the banking sector (versus **47 percent** among all global CEOs).

Strategies important for achieving growth objectives over the next 3 years



Source: KPMG 2022 CEO Outlook

Risks to growth

Due to macroeconomic uncertainty, interest rate risk and reputational/brand risk are named as the most significant threats to the business in 2022.

While tax risk may have dropped out of the top 5, a majority of banking CEOs still believe their banks are under increased pressure due to changing tax regimes and it's likely to contribute to their burden of compliance cost and, thus, may hamper the organisation's growth goals. In fact, **75 percent** of CEOs believe that their organisation is under increased pressure to increase global reporting of their global tax contributions — and that the proposed global minimum tax regime possesses a significant concern to their organisation's goals.

Risks to growth over the next 3 years

2022

1. Interest rates
2. Reputational/brand risk
3. Regulatory risk
4. Emerging/disruptive tech
5. Internal unethical culture risk

2021

1. Cyber security
2. Tax risk
3. Regulatory risk
4. Reputational/brand risk
5. Interest rates

Source: KPMG 2022 CEO Outlook

Technology helping drive growth

Banking CEOs are also directing digital investment to areas of their business that drive growth, with an emphasis on partnerships and preparedness. More than ever, investment is tied to growth, with **74 percent** of banking CEOs saying continuing to drive digital transformation at a rapid pace is critical to stay ahead of the competition. But the anticipated recession may be pushing businesses to reconsider their strategies over the short term, with **78 percent** of banking CEOs noting that their businesses are pausing or reducing their digital transformation strategies to prepare for the anticipated recession (**46 percent** have paused or reduced, and **32 percent** plan to pause or reduce over the next 6 months). In fact, **69 percent** say they need to be quicker to shift investment to digital opportunities and divest in those areas where they face digital obsolescence.

Digital transformation has become more expensive in recent years, so more than ever, investment should be prioritised in those areas that help drive growth — and potentially slowed or reconsidered on efforts that may be considered non-critical. In uncertain times, its imperative businesses focus their digital investments on impactful, and measurable, value creation opportunities most able to support their strategic goals.

Have CEOs taken steps to pause or reduce digital transformation strategies to prepare for a recession?

46% Have taken

32% Plan to take in the next 6 months

22% No action planned

Source: KPMG 2022 CEO Outlook

> **"The banking sector faces a more complex environment than perhaps ever before: client demands, rapid enhancement in digital capabilities, digitisation and new sources of competition are pushing banks to innovate. To provide seamless customer experiences and innovative new products, banks should focus their technology investments (including increasingly people skills and culture) in areas that drive growth."**

Lisa Fernihough
Global Head of Advisory
Financial Services
KPMG International

Bringing people and technology together

With a growing reliance on technology and data, the banking industry has become more vulnerable to challenges such as having the right people skills, deciding on the right technology and managing the digital transformation's cultural impact. Having the people skills to manage the strategic and operational rollout (**69 percent**) is the top challenge for banks for an effective digital transformation. Banking CEOs continue to narrow the gap between their digital transformation objectives and investing in their workforce, **58 percent** say they are placing more capital investment in new technology while **42 percent** are developing their workforce's skills and capabilities. This gap has narrowed from 2021, when **67 percent** prioritised technology investment over workforce-related investments (**33 percent**).

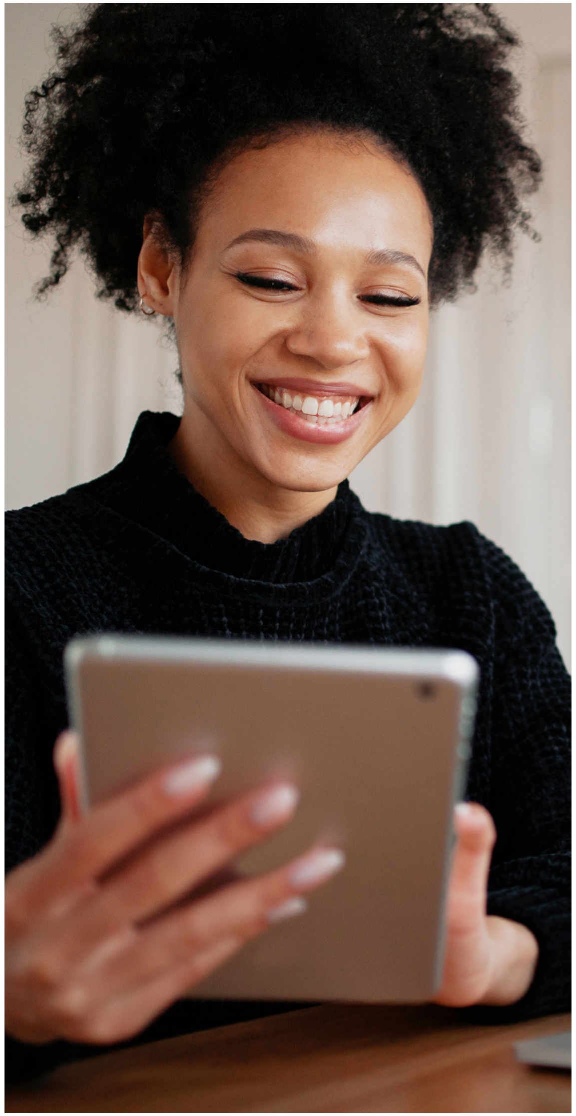
Cyber-attack resilience

Banking CEOs are addressing cyber security strategy to build strong relationships with the stakeholders. Two-thirds of banking CEOs (**66 percent**) are ready for a cyber-attack in the future and have agreed to cyber security as a strategic function. What's more, **77 percent** of banking CEOs see information security as a strategic function to help gain competitive advantage.

Growing experience of the challenges of cyber security is also giving banking CEOs a clearer picture of how prepared — or underprepared — they may be. More banking CEOs recognise they're prepared for a cyber attack, with **76 percent** saying they're prepared, up from **66 percent** last year. It's worth noting that banking CEOs are significantly more prepared for a cyber attack than most global CEOs in other industries. And **77 percent** of banking CEOs see protecting their partner ecosystem and supply chain is *equally* important as building their organisation's cyber defenses. Recent geopolitical volatility worldwide has heightened the risk of companies of all sizes being hit by cyberattacks. The rapid increase in cyber attacks, coupled with the increasing difficulty of detecting attacks on time, calls for automation and innovation in dealing with cyber incidents.

"Cyber security is absolutely one of the biggest risks for our industry as we face the future. We manage our risks well, but like any organisation our data is a target. Privacy breaches and scams are threats, and cyber criminals are increasingly sophisticated, but that is the nature of the digital financial landscape. We must continue to adapt, prepare and respond."

Alexis George
Chief Executive Officer
AMP



Accelerating ESG's impact

Banking CEOs increasingly see the importance of ESG initiatives on their businesses, especially when questioned about ESG's impact on improving financial performance, driving growth and meeting stakeholder expectations. And this year's survey shows a marked jump in demand from stakeholders — such as customers and investors — for increased transparency.

Banking CEOs increasingly agree that ESG programmes improve financial performance, sitting at **38 percent**, an increase from **26 percent** one year ago. When asked where CEOs see corporate purpose having the greatest impact over the next 3 years, **76 percent** chose driving financial performance — just behind building customer relationships (**82 percent**) and the employee value proposition (**81 percent**). CEOs increasingly understand that businesses embracing ESG are best able to secure talent, strengthen employee value proposition (EVP), attract loyal customers and raise capital. ESG has gone from a nice-to-have to integral to long-term financial success.

- **67 percent** see stakeholder demand for increased reporting and transparency on ESG issues up a significant extent (up from **58 percent** in August 2021)
- **65 percent** of banking CEOs believe stakeholder scrutiny on ESG will continue to accelerate
- **19 percent** of banking CEOs indicate stakeholder skepticism around greenwashing is increasing (up from **9 percent** in August 2021)

But banks struggle to tell a compelling ESG story, as **39 percent** indicated this is their biggest challenge in communicating their ESG performance to stakeholders. For banking CEOs, this challenge includes identify and measuring agreed-upon ESG metrics and the technology to support gathering these metrics. Investment in tools such as ESG measurement and governance is increasing, though — **60 percent** of banking CEOs have committed to allocating more than 6 percent of revenue to make their organisation more sustainable.

“ESG opportunities — and risks — are becoming more and more relevant for banks. Not only do ESG considerations make sense for the environment, but sustainable operations are also linked with better economic performance. Considering ESG as part of all business decisions based on a deep understanding of stakeholder expectations can enable significant differentiation from competitors as well as making a genuine difference to our communities and the environment.”

Richard Bernau
Global ESG Lead, Banking and Capital Markets
KPMG International

It's critical for banking CEOs to understand how sustainable their entire business is. When it comes to key drivers to accelerate banks' ESG strategies, **40 percent** see taking a more proactive approach to societal issues like a just transition as the top consideration, followed by increasing measurement and governance to build a transparent approach to ESG (**22 percent**). For financial institutions, the measurement of financed and facilitated emissions is a key metric to help stakeholders understand what the business is funding. Driving consistency in the reporting the emissions these institutions fund is an important area to explore, and the methodology is still developing.

A recession's impact on ESG

As CEOs take steps to protect their businesses in the face of a likely recession, signs point to ESG progress and efforts taking a hit. **46 percent** of the banking executives surveyed say they plan to pause or reconsider their planned ESG efforts over the next 6 months, and **34 percent** have paused or are revisiting their ESG efforts.

Banks that take a step back from their ESG plans, particularly around climate change, are likely ignoring a big opportunity: to be a part of funding the transition. The pause also involves risks, such as how continuing to fund high-carbon industries may leave banks holding stranded assets. Failure to stay the course on ESG could be a strategic and financial disaster for banks.

Diversity ramping up progress

Banks are seeing major focus put on the social aspect of ESG. While there's broad alignment on DEI, there is growing concern around the pace of progress. For starters, **67 percent** of banking CEOs believe progress on inclusion, diversity and equity (DEI) has moved too slowly in the business world, and **78 percent** believe scrutiny of DEI performance will continue to increase over the next 3 years. Awareness is key, and CEOs can play a powerful role in helping lead and drive the DEI agenda in the years ahead.

Diverse teams are also higher performing — but often only in environments of psychological safety. **Seventy-eight percent** of banking CEOs say they have a responsibility to drive greater social mobility in their organisations, which involves how you invite everyone into and structure your organisation. It requires that businesses invest in their people in a new way.

Key drivers to accelerate the company's ESG strategy

40%

Taking a more proactive approach to societal issues, such as increased investment in a living wage, human rights and a just transition

22%

Increasing measurement and governance to build a more robust and transparent approach to ESG

19%

Delivering greater gender equity in leadership and addressing historic gender issues including pay gaps

18%

Implementing a net zero strategy and/or measuring and acting on the company's carbon footprint

Workforce resilience

Banking CEOs are changing how they support and attract talent, and their efforts are buoyed by a focus on technology and experimenting with new ways of working. Though banking CEOs are considering reducing employee headcount in the next 6 months, they're more positive over the longer term, **86 percent** say they're planning to increase the size of their workforce over the next 3 years. What's more, **20 percent** of them said the employee value proposition (EVP) to attract and retain talent is the top operational priority to achieving 3-year growth objectives. Two-thirds of banking CEOs (**69 percent**) agree the ability to retain talent with the pressures of inflation/rising cost of living are top of mind. With the ongoing labour shortage, companies should do everything they can to hold onto talent while addressing economic, competitive and demographic realities.

Evolving perspectives on ways of working

Hybrid/remote working has had a positive impact on hiring, collaboration and productivity over the past 2 years — but more than two-thirds of banking CEOs (**69 percent**) see in-office as the go-to office environment over the next 3 years. This could make it difficult to attract employees, as many have decided a hybrid or work-from-home model is better for them. Making the short-term decision to downsize or bring people back into the office full-time could have significant long-term consequences. CEOs and organisations would do well to invest in their current talent pool and ensure their skill sets are up to date.

Banking CEOs need to make sure their people have purposeful interactions. How do CEOs define what an optimal structure looks like? Now is the time to experiment and see what works best. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.

Banking CEOs are preparing for an anticipated recession

73%

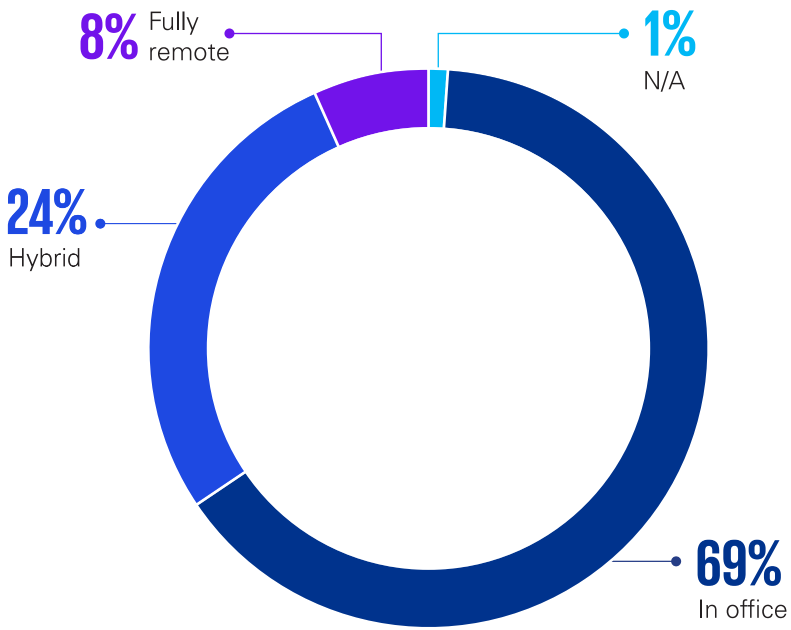
have implemented or plan to implement a hiring freeze in the next 6 months

81%

have considered or will consider downsizing their employee base in the next 6 months

Source: KPMG 2022 CEO Outlook

CEOs envisioning the future working environment for corporate employees



Source: KPMG 2022 CEO Outlook

Banking CEO priorities

The KPMG 2022 CEO Outlook highlights long-term optimism in CEOs despite short-term challenges brought on by geopolitical concerns and a potential recession. Prepared to weather economic difficulties, CEOs are confident in their companies' resilience and growth prospects.

Technology

- **Bring your people and technology together:** Organisations have invested so much in digital transformation that they need to make sure people adopt these technologies and use them to their full potential.
- **Assess current technology systems and platforms:** Banks should evaluate whether their current technology platforms and architecture are fit-for-purpose, and decide if they should adapt, hollow out, create a digital skin or twin, or replace and re-platform current systems to better align to future.
- **Work with partners to drive value:** With CEOs increasingly interested in partnerships, identifying, integrating and managing third parties effectively can help increase speed to market, reduce costs, mitigate risks and supplement capability gaps in delivering the customer promise. Drive open innovation by engaging closely with digital platforms, ecosystem and startups. These partnerships would serve as key enablers for enterprise transformation strategies.
- **Get closer to customers:** Orchestrating compelling customer experiences requires companies to begin with the customer and work backwards, taking an outside-in perspective to reverse-engineer and shape what the experience should be; then, they should adopt an inside-out view to define how the experience should be delivered.
- **View cyber security as a strategic function:** Increasingly, cyber is no longer seen as only an IT issue; it's a fundamental business operation imperative. The exponential increase in cyber attacks, coupled with the difficulty of detecting an attack in a timely manner, calls for automation and innovation in dealing with cyber incidents.

Talent

- **Experiment with ways of working:** As organisations launch return-to-office plans, it's important for CEOs to develop working structures that suit their people. It's time to experiment and see what works best. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.
- **Tell your ESG story:** A business's ESG approach is increasingly seen as a differentiator when it comes to attracting and retaining talent. And with many CEOs saying they're struggling to tell a compelling ESG story, it's important for CEOs to articulate for stakeholders the steps they're taking to address ESG in their organisations.
- **Build, don't follow:** Organisations and their employees are changing and leaders need to reinvent the enterprise workforce. The old talent management playbooks are out of date, and the challenge is that there aren't new ones to replace them — yet. The way forward involves strategies that include reinventing the workforce, focusing on the social side of ESG, leveraging analytics and designing a nurturing experience.

ESG

- **Recognise ESG's impact on financial performance:** ESG has become integral to long-term financial success. CEOs increasingly agree that ESG programmes improve financial performance, which includes being able to secure talent, strengthen employee value proposition, attract loyal customers and raise capital.
- **Track progress toward climate-related goals:** Now more than ever, it's critical that banks take a proactive approach to climate-related disclosures, providing more transparency and consistency for investors and the wider stakeholder community. Banks also face new mandates for climate risk stress testing, and regulators are driving the need to manage climate risk.
- **Take the lead on DEI:** CEOs can play a powerful role in helping lead and drive the DEI agenda in the years ahead. It's important to normalise and create a culture of DEI across the organisation to attract and retain new employees.

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