



Future-proofing banking: The enterprise transformation imperative

2024 US Banking Industry
Outlook Survey

kpmg.com





“When in doubt, choose change.”



Foreword

**Unleash digital capabilities.
Unlock growth.**



The path to growth for banks is accelerating their enterprise transformation to be the bank of the future. Modern technology platforms are the foundation, allowing banks to leverage the latest technologies to enhance operational efficiency, customer retention and attraction, and resilience through the next wave of challenges.”

Peter Torrente

US Sector Leader, Banking &
Capital Markets, KPMG LLP

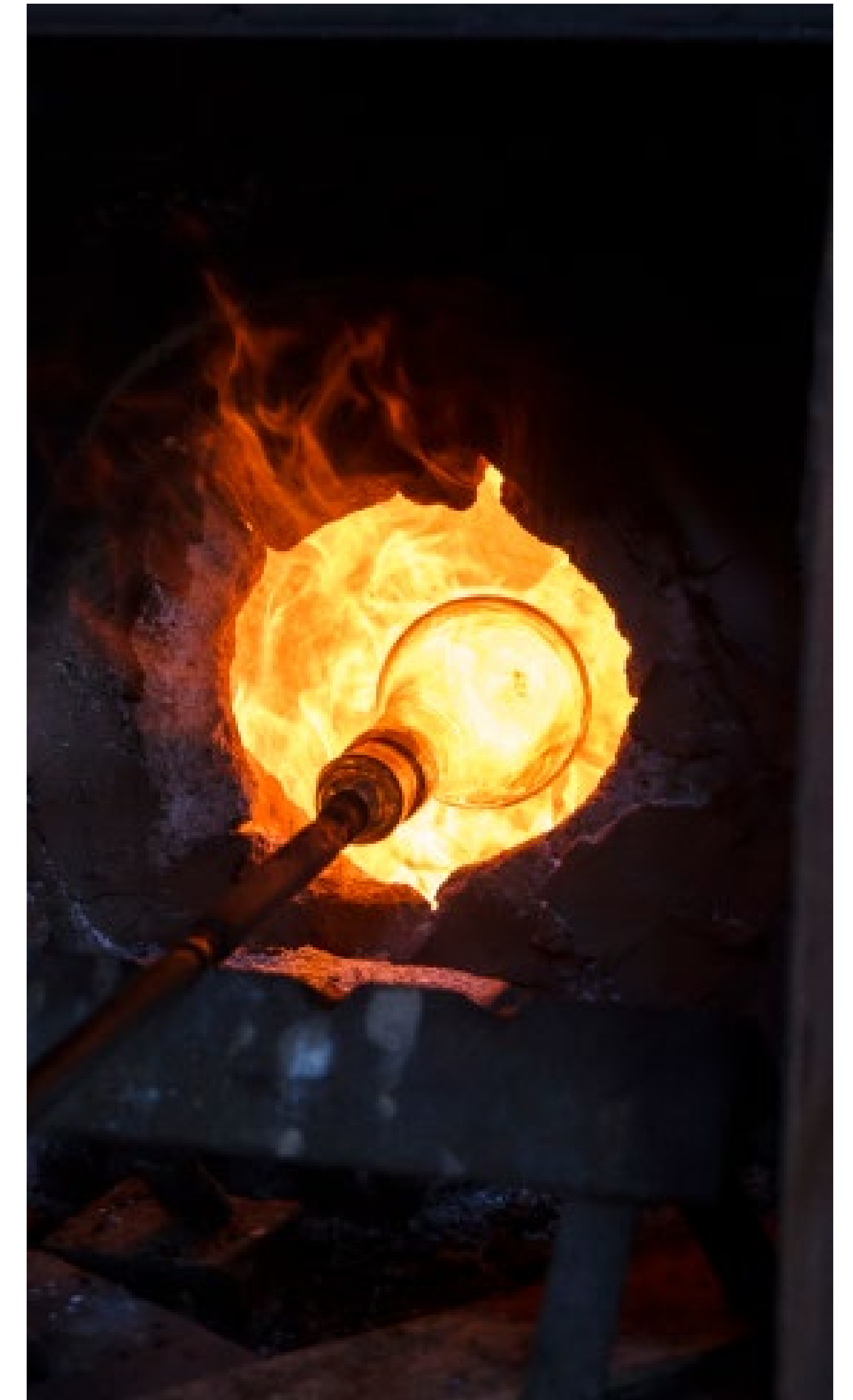
US banks face a difficult growth environment due to compounding macro- and microeconomic headwinds, geopolitical instability, intensifying regulatory scrutiny, and other near-term challenges putting pressures on earnings. At this critical juncture, the KPMG National Banking practice sees significant opportunity for banks to choose change—embark on an accelerated journey of enterprise-wide transformation.

The third year of our annual industry outlook survey finds US banking executives similarly undaunted. The majority of banks are looking beyond current volatility and embracing a future-forward approach, by actively investing, innovating, and transforming to lay the strategic and operational groundwork for a better, brighter future.

Our March 2024 survey of 200 US bank executives—including 41 percent from banks with assets of at least \$50 billion—sought answers to the predominant question facing the sector: How do banks thrive, while balancing growth, profitability, and efficiency and while maintaining a tenuous hold on customers in a constrained environment?

The data finds bank executives expecting today’s challenging business patterns to hold and shows their continued struggles to navigate the evolving competitive, economic, and geopolitical obstacles of the day. It also reveals a clear imperative for banks to continue to fast-track their ongoing journey of future-proofing and demonstrates their multitude of efforts to become more digitized, data-driven, and customer-centric. This includes not only adopting the latest technologies and platforms, but also nurturing the right talent, culture, structure, risk management, and governance to optimize operations, strengthen trust and resilience, and reveal new paths to growth.

The 2024 US Banking Industry Outlook Survey reveals the challenges and opportunities facing the banking sector in the midst of economic, regulatory, and technological disruptions. As they navigate their organizations through this critical period of transformation, we invite bank executives to read this report for data and insights on the trends that are shaping the industry’s present and future, and to connect with us to discuss how we can assist them in achieving their strategic and operational goals.



Contents

Key findings	5
Growth and strategy	6
Operations and modernization	11
Risk, regulatory, and tax environment	20
Key takeaways	27
How KPMG can help	29





Key findings

Click on the boxes below to know more >

Growth and strategy	Operations and modernization	Risk, regulatory and tax environment
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Methodology

In March 2024, KPMG surveyed 200 senior executives. Respondents represent a cross-section of US banks by asset size. They work in diverse roles and lines of business, including retail and consumer banking, investment banking, wealth management, wholesale banking, and multiple back-office support functions. Among respondent banks, 41 percent have \$50 billion or more in total assets, including 16 percent that have at least \$100 billion in total assets.

Growth and strategy

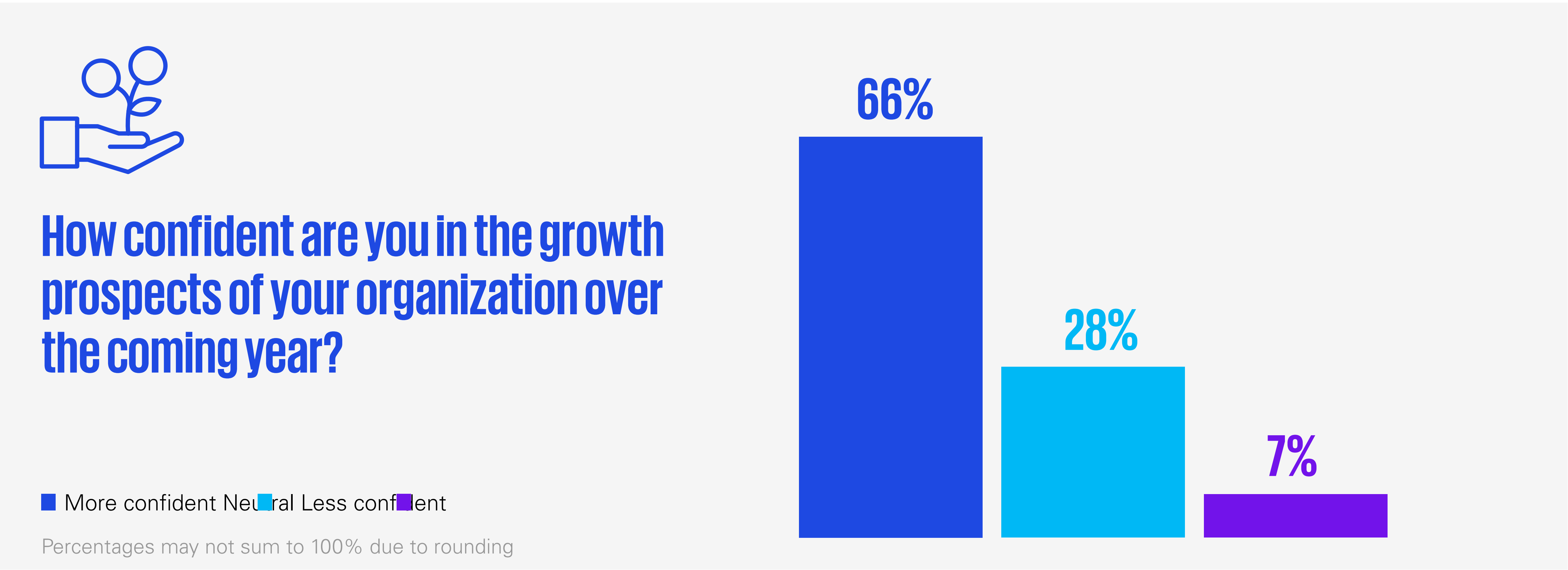
Growth expected despite compound volatility	7
Economic and geopolitical risks persist	9
A focus on cost transformation	10



Growth expected despite compound volatility

It hasn't been easy for US banks lately. The industry has been facing a confluence of pressure on earnings: high interest rates, low stock prices, credit uncertainty, a slow merger and acquisition (M&A) market, geopolitical conflicts disrupting world markets, unprecedented regulatory scrutiny, and impending regulatory uncertainty following the US presidential election.

Yet, there are signs of a brighter future ahead, especially among larger, growing banking institutions. Our survey finds bank executives, as a whole, relatively confident in the growth outlook of the banking sector. About two-thirds (66 percent) of executives expressed confidence in their organization's growth prospects over the coming year, including one-third (33 percent) who were very confident. Size was a clear factor in growth potential, as nearly all larger organizations, with more than \$50 billion in assets, are more confident (93 percent) than smaller organizations with less than \$50 billion in assets (48 percent).



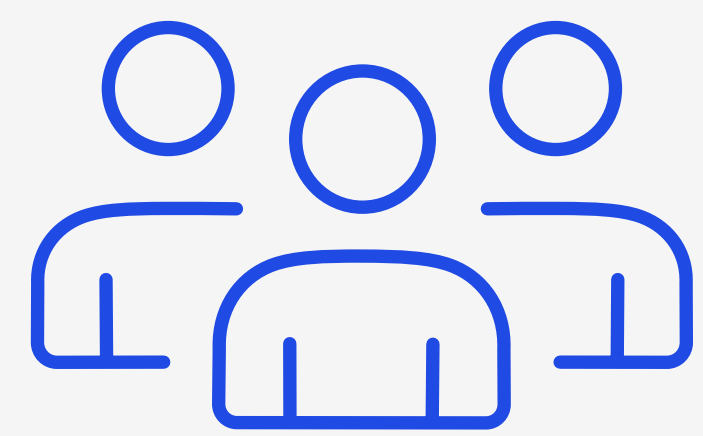
Banks are operating now in a more controlled, structured environment following US market events of last year, which focused bank regulators on strengthening liquidity standards. And while recent economic data around gross domestic product (GDP) and inflation has fluctuated and there will be bumps on the road to come, we expect the industry to be headed for a soft landing.

The sector is also expected to experience increases in headcount. About 6 in 10 respondents said their bank's headcount will increase over the next year, with larger organizations (more than \$50 billion in total assets) and growing firms (those confident in their growth prospects) more likely to take this view. One in five (20 percent) anticipate a sizeable headcount increase between 6 percent and 10 percent.



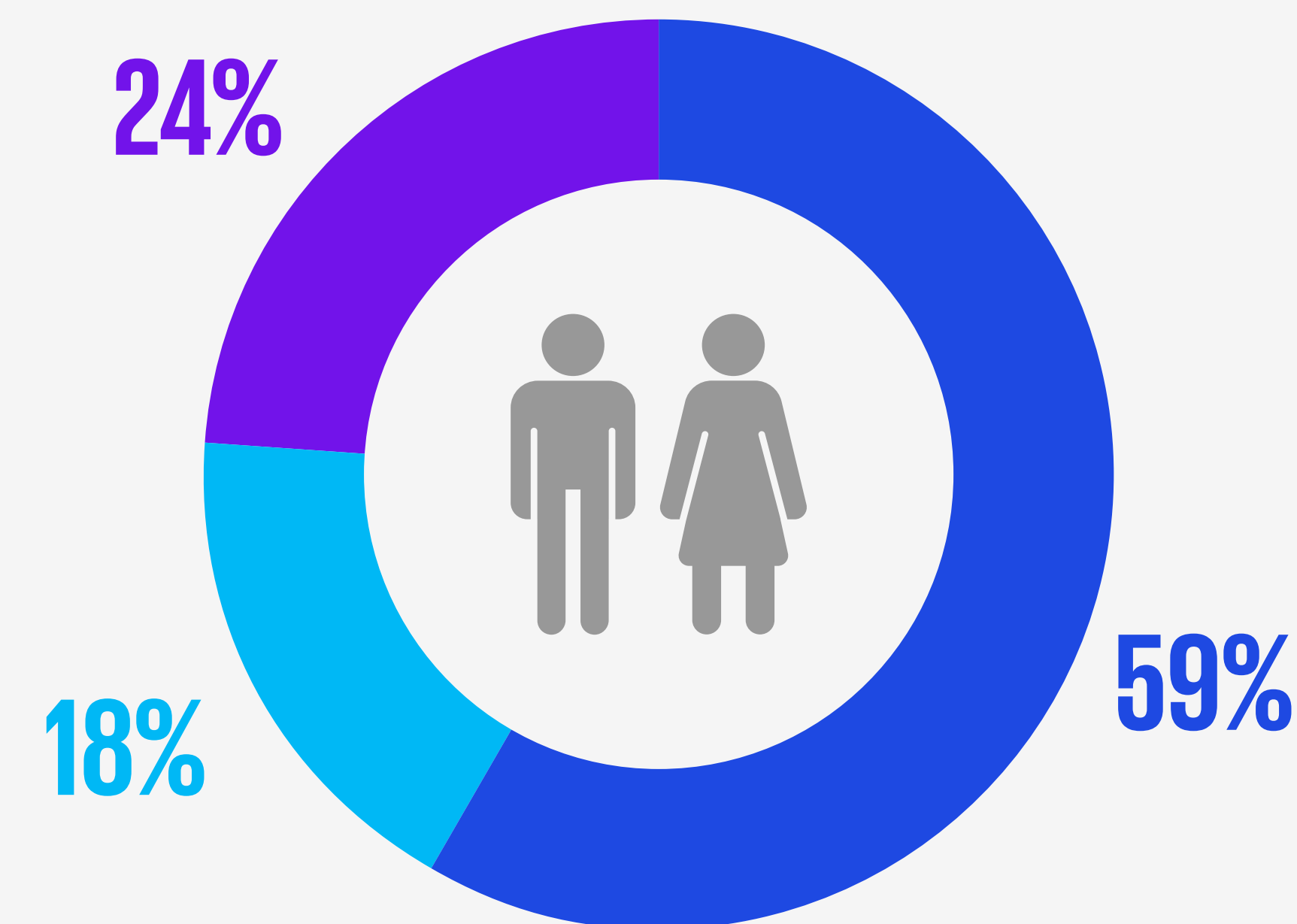
Banks are seeking growth opportunity and strategic transformation through M&A deals to enhance their market position, expand their offerings, and strengthen their balance sheet. We anticipate an upswing in the latter half of the year in the financial services market. Given election-related and geopolitical volatility, it won't be as fast and hard as we thought at the beginning of the year. But banks will see that bounce."

Henry Lacey
Banking Deal Advisory Leader, KPMG LLP



How do you expect your organization's headcount will change over the next year?

■ Increase ■ Stay the same ■ Decrease



Percentages may not sum to 100% due to rounding

We believe hiring will pick up most in back-office risk and regulatory functions as more banks are swept under information reporting rules, while front-office retail roles may continue to shrink with the continued advent of enhanced digital self-service capabilities. New employment opportunities may also follow from generative artificial intelligence (GenAI) investing, which is driving speed to market of all-new products and services across the sector.

And with an interest rate cut still possible later this year, our survey finds M&A activity may pick up towards the end of the year. The majority of banks (59 percent) said profitability will grow inorganically; their M&A plans over the next 12 months could support the industry in repositioning for success in the future.

In pursuit of higher yield, 41 percent of banks expect to pursue acquisitions of financial assets, the fastest deal route and one that is easier in the current environment as it does not need full regulatory approval.

Thirty-eight percent said they will acquire another bank or banks. We expect consolidation activity highest among smaller banks, with under \$150 billion total assets, and more movement on acquisition after the election when current proposals—which are on pause as banks wait for better understanding of what the 2025 regulatory environment will look like—really start to move.



At the same time, 29 percent are considering spin-offs or divestitures over the next 12 months, indicating a focus on strengthening the balance sheet by getting rid of lower yielding assets. Among those firms, 65 percent will divest financial assets and 62 percent will divest nonfinancial assets. These numbers would almost certainly be higher if the buyer market was stronger. For example, many banks would love to divest some of their real estate property, especially those in prime locations and conditions, but due to high borrowing rates and the rise of remote and hybrid work in many white-collar industries, the interest isn't as high as it was pre-pandemic.

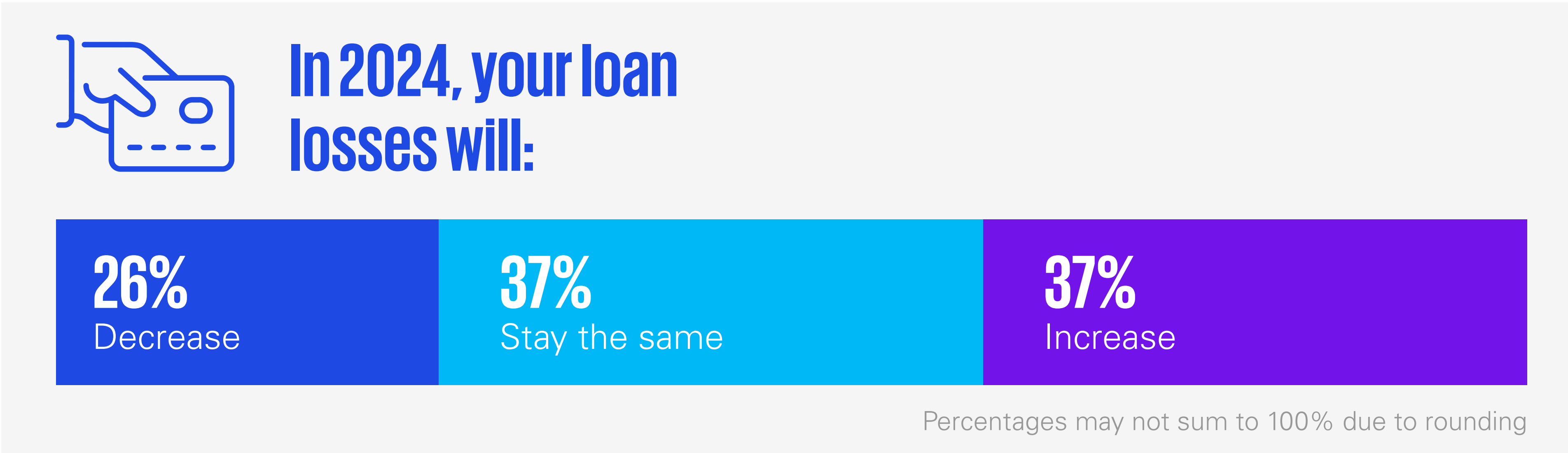
Given the nature of today's M&A transactions, it is a good sign that the majority of bank executives (56 percent) said their tax department plays a meaningful role in advising their bank on its transactions and broader M&A strategy. However, we expect this number would rise following potential changes in the regulatory environment—such as shifting attitudes toward cross-border investment—which would make tax more important to deal structuring. In any M&A landscape, tax due diligence should be considered preannouncement. But where its impact is most critical is during post-transaction analysis, which needs to be done to ensure the acquirer optimizes its return.

Economic and geopolitical risks persist

Respondents expressed a more mixed outlook on loan losses, which remain a concern: 37 percent of executives expect their loan losses to increase in 2024. With cost-of-living increases squeezing consumer housing and car leases, retail banks appear especially vulnerable to loan losses.

Housing rates, in particular, have gone up exponentially in the past few years, with mortgage costs tripling in many cases.¹

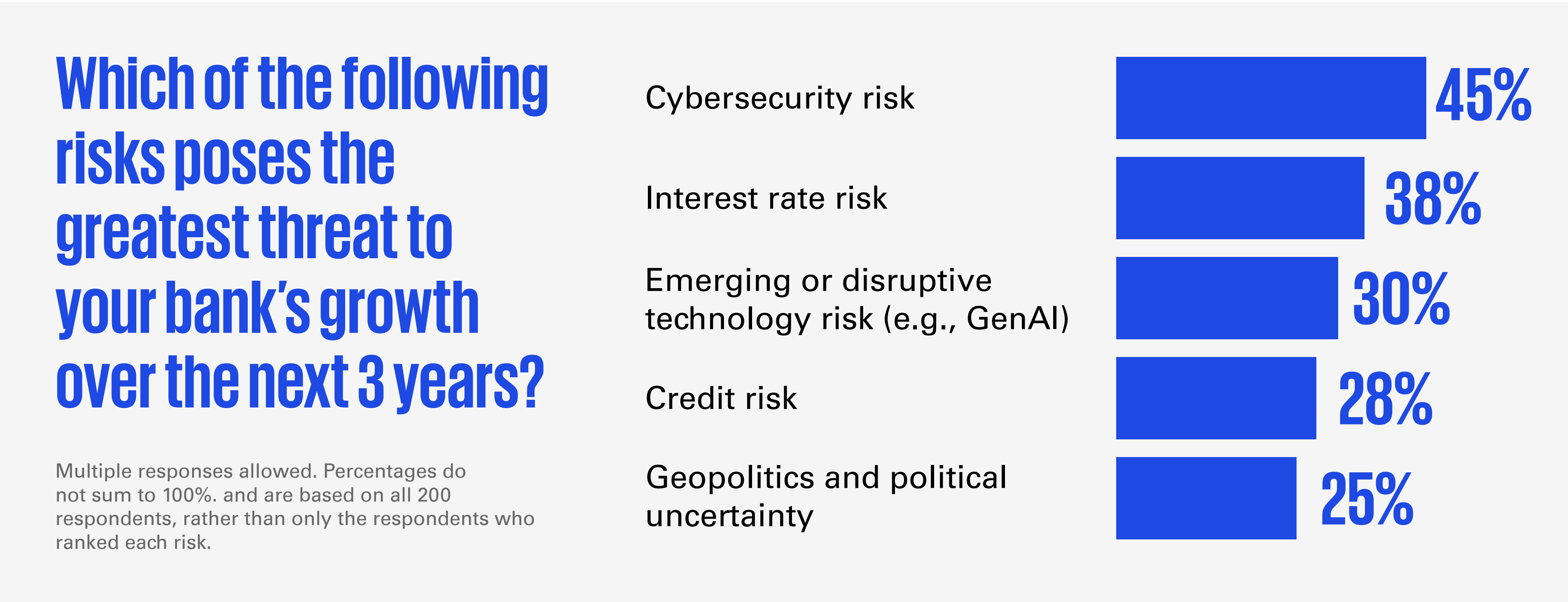
As the year progresses, executives will keep an eye on several other factors affecting earnings. The upside-down interest rate environment and declining loan market are foremost concerns. With the percent of customers holding a fixed rate mortgage trending higher and higher over the past decade-plus, interest rate increases were the factor most often considered “very significant” (35 percent) as a top risk to growth, with commercial lending growth (29 percent) and deposit growth (30 percent) also key concerns. Over the next three years, interest rate risk (38 percent) was also among the top risks to growth. Banks have been lending at around 2.8 percent over 30 years, but now have to buy deposits at a rate of at least 5 percent. In other words, normal interest rate arbitrage is upside down, but banks need rates to come down faster than the Federal Reserve is



willing to cut them.

As a threat to growth, interest rate risk trailed only cybersecurity risk, which has been top of mind across the financial services community in recent years. Today, hacks and penetration from state actors in China and Russia trying to disrupt payment and ATM systems continue to rise, forcing all banks to further double down.

Relatedly, the findings show a clear need for banks to adapt geopolitical uncertainty around the world. More than 6 in 10 (61 percent) of respondents said rising geopolitical tensions this year will disrupt current positive US economic trends, such as inflation cooling and GDP. Half (50 percent) said they are currently making significant strategic adjustments in response to geopolitical uncertainty, wars, conflicts, and major elections happening around the world. Larger organizations, which typically have more global operations, considered geopolitics and political uncertainty a greater threat to growth than smaller banks.



The banking sector must always navigate political uncertainty in an election year, and this is especially uncharted waters. The outcome of the November election could affect the power of the Federal Reserve, or even propel a restructuring of US banking and regulatory systems. Banks could also be affected by corporate customers holding off large M&A deals to avoid going through an approval process in a highly politicized environment. The same pull back can be seen when it comes to research and development (R&D investment), as corporations wait to see if a new administration comes to power to change the tax rules in their favor.

And global conflicts are also causing banks to consider strategic adjustments. For example, bot factories in China and Russia threaten to disrupt payment systems.

¹ Source: Bankrate.com, Mortgage rate history 1970s to 2024 (April 8, 2024)

A focus on cost transformation

A primary way banks will navigate challenges and uncertainties in the market is through controllable internal methods. The data shows that banks are actively implementing strategies and initiatives to optimize their cost structures, and that both cost management and optimization will be key to achieving financial goals. Indeed, winning new business through digital transformation (73 percent) and pursuing cost reduction and efficiency enhancement effort (71 percent) were factors considered significant to banks' earnings outlook over the coming year.



The growth outlook for the banking sector is on the upswing as executives see the opportunity in making strategic moves to position for the future. As banks work to rationalize their property footprint and appropriately scale their people, efficiency enhancements through digitization and automation will go hand-in-hand with cost-cutting measures to set banks up for success in the year ahead.”

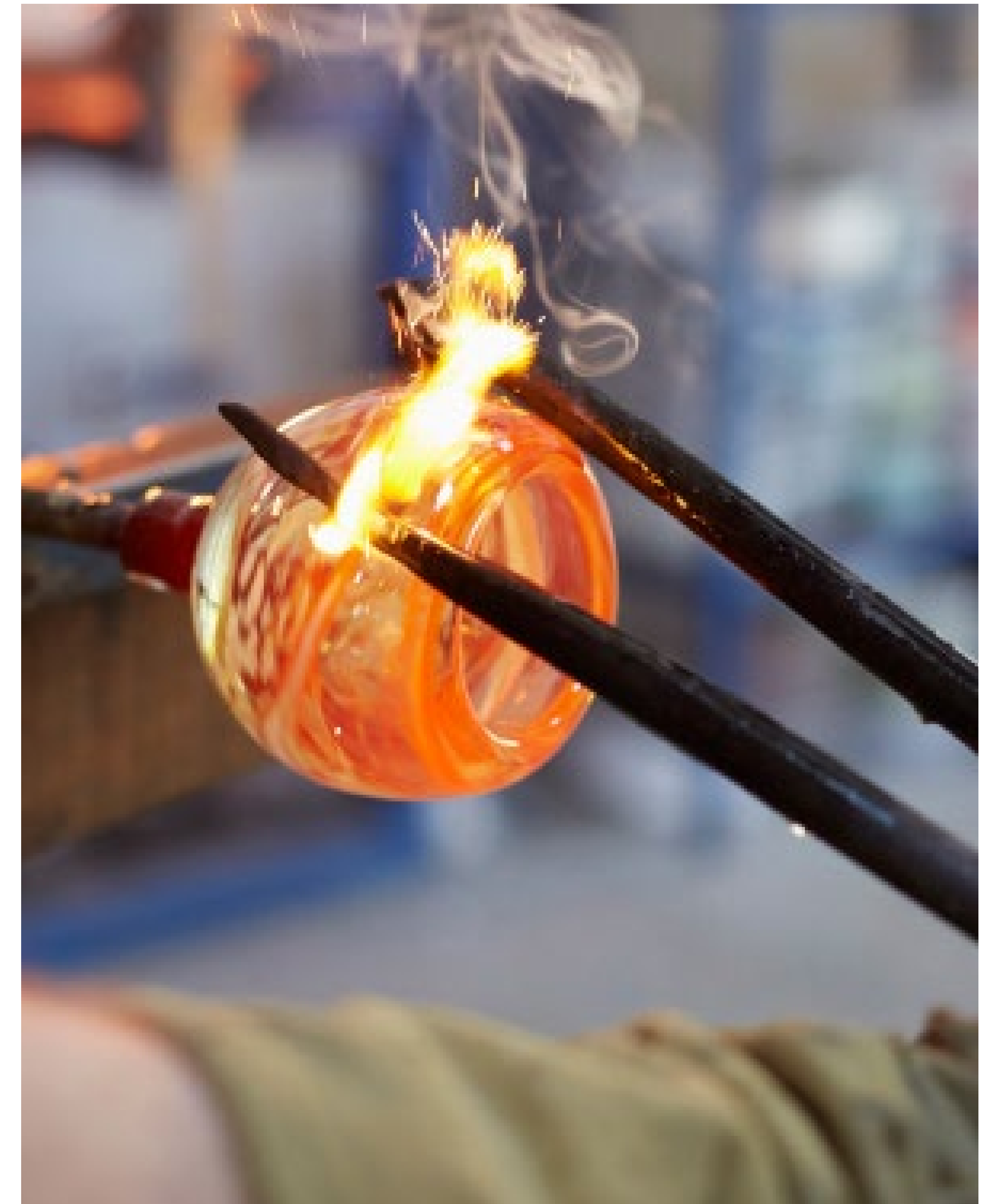
Robert Ruark

Banking & Fintech Strategy Leader,
KPMG LLP

Banks are not only engaging in short-term cost-cutting measures but also pursuing strategies that will have a lasting impact. We see banks turning to cost reduction to both sustain near-term profitability and spark future growth.

More than half of executives (52 percent) said their banks' profitability will grow through cost transformation, while 48 percent said there is a current plan in place to manage or transform the cost base. And, 57 percent said efforts in cost reduction focus on long-term, sustainable results while an almost identical portion (56 percent) said they are pursuing cost reduction initiatives to mitigate potential earnings shortfalls over the next four quarters.

Considering the massive number of physical brick-and-mortar bank branches in the US—and the capital expenses and salary costs required to run them—digital innovation will have to lead to cost transformation in the banking industry. For example, some smaller banks may be the last in their communities and are under pressure not to close as a result. Building a strong digital footprint, with accessible banking apps and payment options besides cash and check, will be crucial to managing costs and positioning for success in the future of banking.



Operations and modernization

Refining the multichannel customer experience	12
Unleashing data-driven personalization	13
Establishing security, privacy, and trust	14
Unlocking the power of GenAI	15
Modernizing the payments ecosystem	17
Adapting to new ways of working	19

Refining the multichannel customer experience

Meeting the unique needs and preferences of customers is paramount to success in today’s digital world. The top investment priorities for banks in 2024 highlight the sector’s prioritization on enhancing the customer experience to keep up with changing expectations, with banks striving to optimize and refine their multichannel approach in a fast-moving market.

Intent to leverage technology to meet customers where and when they are, delivering consistent, seamless functionality, interactions and experiences, no matter how customers come into the bank, is crucial. Online banking (62 percent) and mobile banking (57 percent) are the digital channels being prioritized for investment in 2024. In these widely used channels, investing for growth is basically a sure bet—but the objective has changed. Online banking was once the shiny new thing. Now it’s mature, and banks are finding they need to ramp up innovation to take it to the next level and keep up with customer preferences. Banks have also built a solid foundation in mobile channels, but recognize that to continue to drive adoption, their app can’t just run; it’s got to win customers through experiences that matter.



Banks are investing heavily in next generation online and mobile banking capabilities that are hyper-focused on seamless interactions and personalized experiences. Simply having capabilities digitally available is not enough. Those capabilities must now be easy to use and differentiated by providing experiences customers didn’t even know they needed. Creating simple, personal experiences are surprisingly complex and are driving investment demand in 2024 and beyond.”

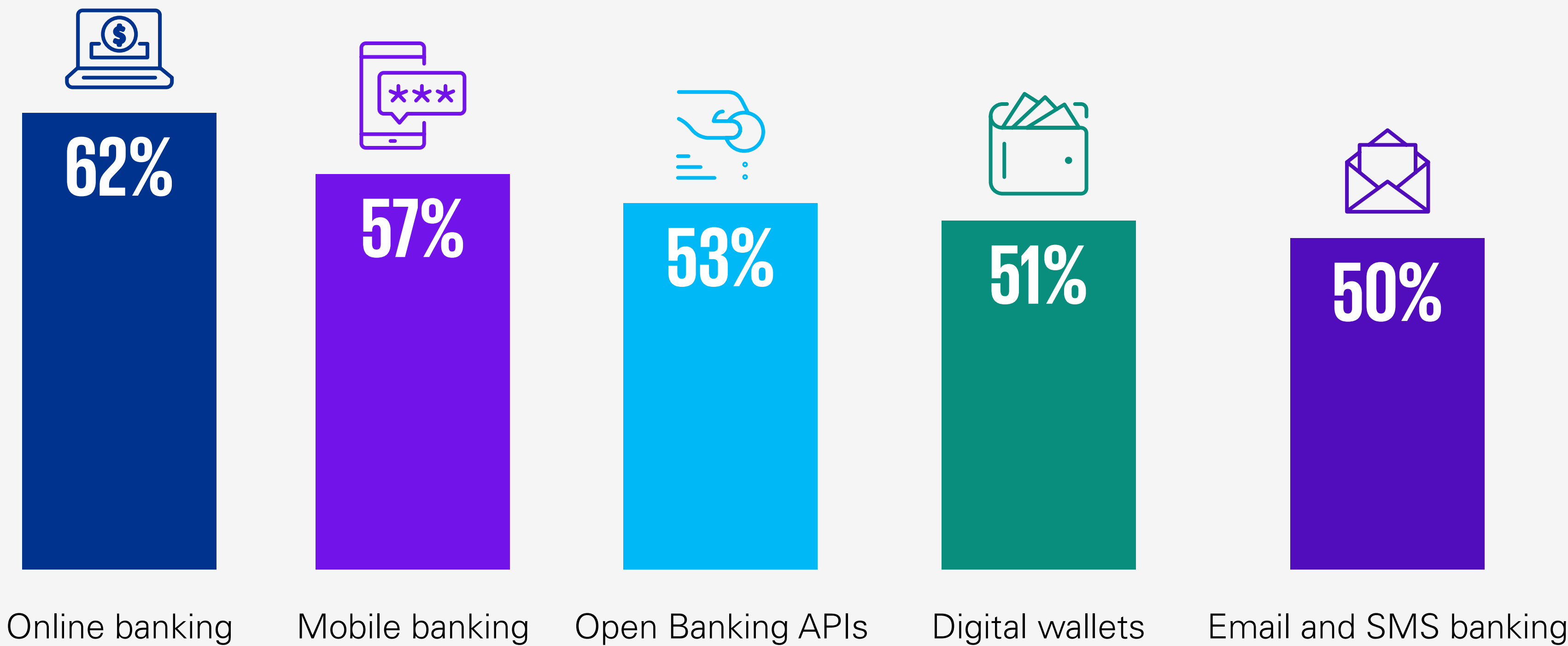
Celeste Diana

Financial Services Digital Transformation, Principal,
KPMG LLP

Some banks will also invest in a range of newer-emerging digital channels and partnerships that could become key to the industry’s future efforts to remain competitive and meet evolving customer expectations. As regulators decide on a federal open banking rule proposed by the US Consumer Financial Protection Bureau, it is catalyzing adoption, with 53 percent of banks prioritizing open banking application programming interfaces (APIs). Digital wallets (51 percent) and email and short messaging service (SMS) banking (50 percent) were also selected as a priority by at least half of executives.

Finally, banks are implementing multiple critical enablers of all of their digital channels, led by biometric authentication (44 percent), predictive analytics and AI-driven personalization (32 percent) such as chatbots and virtual assistants (28 percent), and voice banking (22 percent). As advances in AI revolutionize these embedded capabilities, banks have an opportunity to improve features and drive adoption across digital channels.

What digital channels are being prioritized for investment in 2024?



Multiple responses allowed. Percentages do not sum to 100%.

Unleashing data-driven personalization

To address obsolescence, banks have been modernizing for years, with heavy investments in simplifying operations, processes, infrastructure, and ecosystems and strengthening integration and data management. Now, many are starting to reap the benefits with foundational capabilities implemented to innovate new products thereby attracting new and retaining existing customers.

Data-driven insights and personalization (54 percent) topped the list of bank industry investment priorities. This is another clear acknowledgment of the criticality of personalized products and services driving bank growth and innovation. Equally, it is a sign that banks are starting to achieve the outcomes they envisioned from their recent (and in many cases, still ongoing) large-scale digital transformation programs.

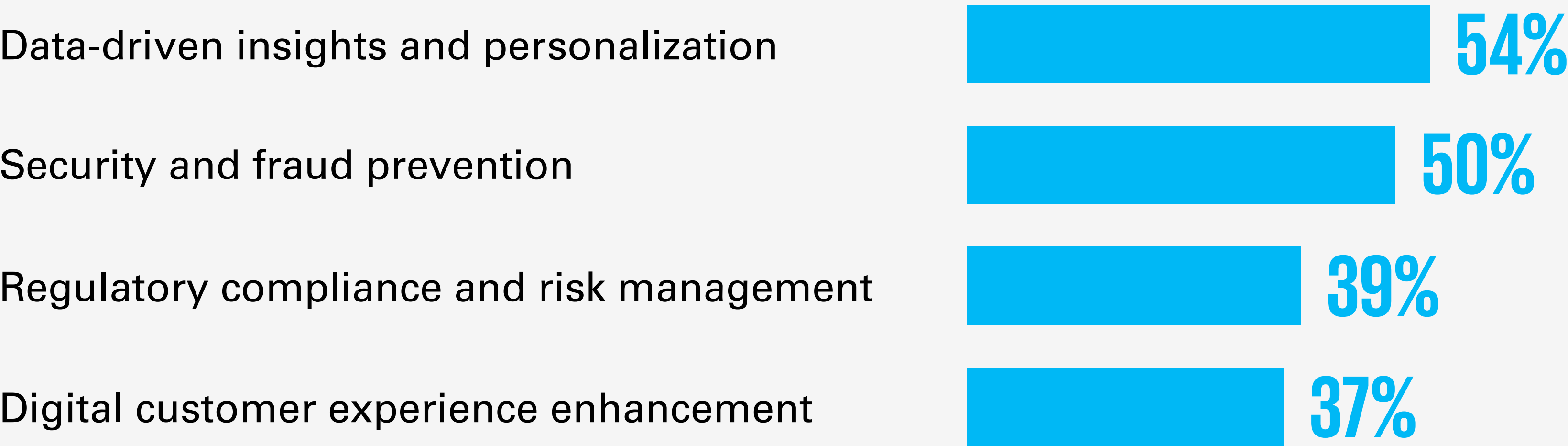
As banks progress along the digital transformation journey, they are increasingly able to focus on building and enhancing capabilities that will be differentiated and personalized to customers. Data insights are the foundation, enabling banks to develop products, services, and experiences that are focused on the individual and not the generic “anyone” consumer.

Banks are still continuing their transformation processes that will allow them to organize and govern structured and unstructured data in a way that supports personalization. For example, 28 percent were prioritizing ecosystem integration, which would allow insights to be drawn across previously disconnected lines of business.

Meanwhile, digital leaders are in prime position to jump ahead. With modern technology platforms and processes, banks can access and organize vast amounts of data, which they can use to gain insights into their customers’ behaviors, financial habits, and preferences—and leverage them to develop tailored products and services that meet specific customer requirements.

For example, banks are analyzing spending patterns and offering personalized budgeting tools and financial planning advice to help customers achieve their financial goals. Additionally, banks are leveraging data to provide personalized lending products and investment recommendations based on individual risk profiles.

Which investments are being prioritized in 2024?



Multiple responses allowed. Percentages do not sum to 100%.



Shifting from traditional to tech-savvy is a necessary evolution for banks on two counts. Banks have no choice but to modernize and digitize if they are to sustain profitability and win the “war for the customer” during current headwinds. It is simultaneously the right strategic move to unleash growth on the other side, building the foundation for future relevance, product innovation, and competitiveness.”

Anand Shah
Banking Technology, Lead Principal,
KPMG LLP

Establishing security, privacy, and trust

Every bank would love to personalize customer experiences to drive growth, but they must balance investments in growth and efficiency with risk appetite. Today, cyber breaches—which are increasing exponentially in both amount and sophistication—are the market trend that is eating up a great deal of bank resources. Looking to shore up an area of vulnerability that is really heating up, half of bank executives named security and fraud prevention as an investment priority (50 percent).

This survey finds cybersecurity risk (45 percent) poses the greatest threat to growth, ahead of all other risks. In addition, 4 in 10 bank executives said they have seen an increase in the number of cyberattacks on their bank. And 65 percent said their bank is increasing cybersecurity efforts due to emerging technology, such as GenAI.

Robust security measures are integral aspects of establishing customer trust in banking, where transactions and interactions occur online, and security weakness can expose customers’ personal information and identities to bad actors or the public domain. Even basic cyber controls of payment systems require huge time and dollar investments, leaving less money to spend on new product innovation, or even normal risk management activities. But hackers will go where the money is: In other words, the threat to drive down profit margins is outweighed by that of lost market share and dominance should the bank suffer a major breach impacting customer wallets—and trust.



Banks are prioritizing cybersecurity and data protection accordingly in their digital transformation efforts. Although a significant majority of respondents expressed confidence in cybersecurity and data protection—78 percent believed they are adequately equipped to protect customer data, privacy, and assets in the event of a cyberattack—more than half of banks (55 percent) are increasing their budget to address cyber risk. Many are even turning to the most disruptive tool of the day—GenAI—to help boost security of systems and data. Six in ten (60 percent) banks have a GenAI-enabled cybersecurity solution in pilot or production phase.

By investing in modern digital tools, banks can implement advanced security technologies and protocols to safeguard customer data and transactions, such as multifactor authentication, secure encryption, and real-time fraud monitoring systems. When customers have confidence in a bank’s ability to protect their sensitive information and financial transactions, they are more likely to engage in digital banking activities and feel secure while doing so. This trust helps foster a positive customer experience, and customers are more likely to stay loyal to a bank that prioritizes their security needs.

“

In areas where banks are under strain, leaders are asking how GenAI can help ease it. At this moment in time, risk avoidance is top of mind, so cybersecurity, fraud, and compliance and risk use cases are where we see banks deploying GenAI solutions first. In this highly regulated industry, managing compliance and risk are tremendous costs and leveraging GenAI to respond quickly and efficiently to these needs is a business necessity. As banks grow more confident in GenAI deployment, we expect increased exploration of value creation opportunities, with more investments in front-office, market-facing GenAI applications, such as chatbots for customer service and sales.”

Kalpana Ramakrishnan
Financial Services GenAI Leader, KPMG LLP

Unlocking the power of GenAI

No conversation about digital transformation can start without acknowledgment of GenAI, the fastest adopted technology in the history of business. This game-changing technology is opening entirely new avenues for engaging with customers, creating insights and content, augmenting the workforce, and generating business value.

The banking sector recognizes the extraordinary promise of GenAI in shaping their future strategies and remaining competitive. As a general trend, banks have stopped seeing GenAI as a proof of concept and started seeing it as a capability.

Bank leaders expressed an unprecedented expectation for productivity to increase in a very short time frame. Half of executives said that by the time 2024 comes to a close, 1 percent to 5 percent of their team’s daily tasks will be able to be executed by GenAI to free up employees’ time for added-value work. Another 37 percent said GenAI will be able to handle 6 percent to 20 percent of the team’s daily work.

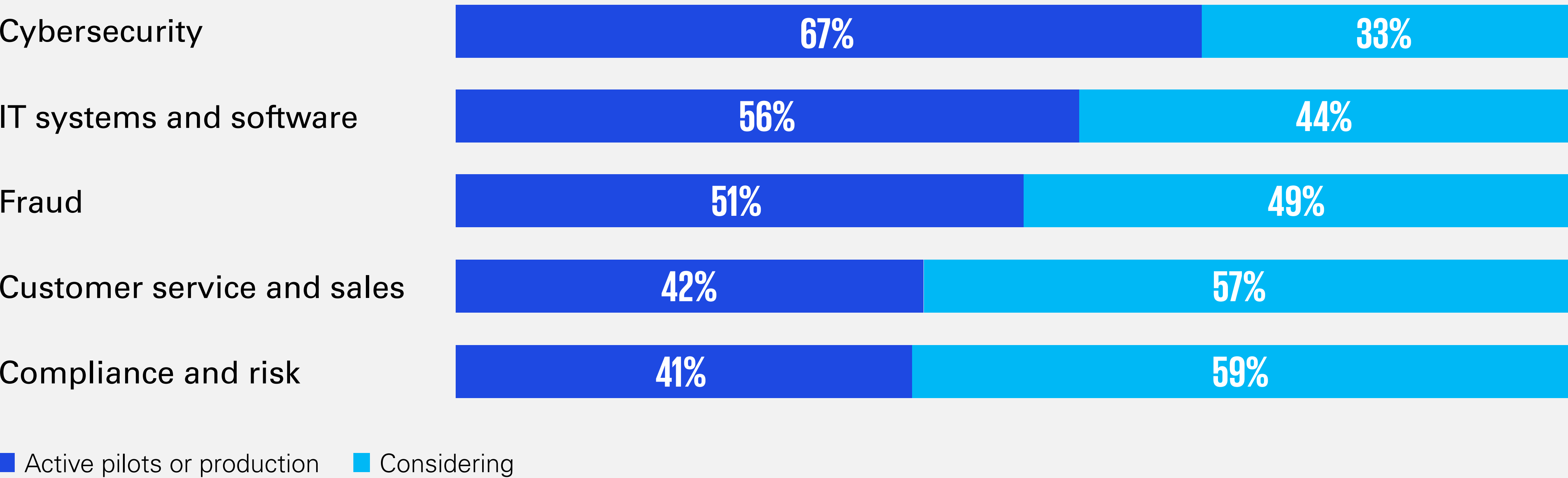
The research indicates even greater efficiency and capacity gains anticipated over the long term, as the technology progresses, adoption increases, and employee time previously spent on tasks that can instead be done by leveraging GenAI can be freed up to repurpose for higher-value activities. For example, 65 percent of bank executives agreed that GenAI is an integral part of their institution’s long-term vision for driving innovation and ensuring the business remains relevant five years from now.

Many banks are actively exploring and implementing GenAI for a diverse range of use cases, with some of the most common applications directly correlated to current top agenda items for industry—cybersecurity (67 percent), fraud (51 percent), and compliance and risk (41 percent). As budgets and resources to fight cybercrime, protect data and customers, and comply with intensifying regulatory requirements have skyrocketed, bank executives are looking to GenAI as a potential solution. For example, GenAI solutions can help automate fraud detection and risk scoring, rating, and decision-making by sifting through and making sense of huge volumes of unstructured data logs far faster than a team of humans.





Which active use cases for GenAI does your organization have in pilot or production phases?



Percentages may not sum to 100% due to rounding



The findings also indicate a view that GenAI can help banks, improve process efficiency, gather intelligence, and become more predictive. Information technology (IT) systems and software (56 percent) is another area of high GenAI deployment. This is a back-office capability where GenAI can help make everyday tasks more efficient; it may also be an “easy layup” given its tech-savvy users who may be quicker to embrace new GenAI tools. Almost half (42 percent) of banks have a GenAI tool in pilot or production phase for customer service and sales, where GenAI capabilities can help get analytics and insights quicker to optimize and personalize customer interactions.

Along with the energy around GenAI adoption, bank executives also expressed wariness of the significant unknowns—a rational perspective in a sector where safety and soundness has always been a foundational requirement. The industry is still in the early stages of this rapidly accelerating space. There remain both technological and regulatory hurdles that banks will need to address to

fully seize the value of GenAI and make it just another part of how they do business. Security and compliance challenges (37 percent), integration with existing systems and processes (37 percent), and legacy IT infrastructure (34 percent) are the top challenges they face when deploying GenAI across the enterprise.

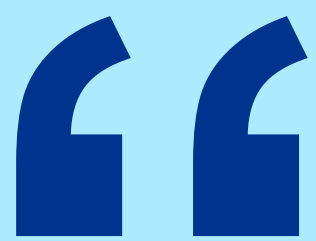
We find most banks proceeding with appropriate caution, including taking steps to prepare for a wide range of GenAI impacts across their businesses through proactive change management, usually a chronically underinvested area. Sector leaders seem to realize that keeping up with and taking advantage of GenAI advancements requires understanding and addressing a wide range of impacts across the business. For example, bank executives were relatively confident in organizational readiness to understand cybersecurity risks (64 percent), address employee resistance (63 percent), and navigate ethical concerns (59 percent).

Modernizing the payments ecosystem

The sector is also accelerating technology change to progress key ongoing modernization efforts across their payments platforms. In fact, the next 12 months look to be critical not only for the financial sector to achieve a fast, secure and standardized payments ecosystem, but also for banks to start creating and realizing value from it.

The ISO 20022 industry mandate and the move to instant payments are serving as catalysts for payments modernization, with 79 percent of banks stating that they are looking to modernize multiple payment types over the next few years.

ISO 20022 continues to be the burning platform in the US and the biggest watershed moment in payments globally, as this move to a single common global business language for financial messaging for high-value payments is a mandate for all financial institutions across the globe. US banks are focused on meeting the March 2025 industry mandate for Fedwire (the Federal Reserve’s US network for high-value wire payments) and SWIFT’s November 2025 deadline for cross-border payments.

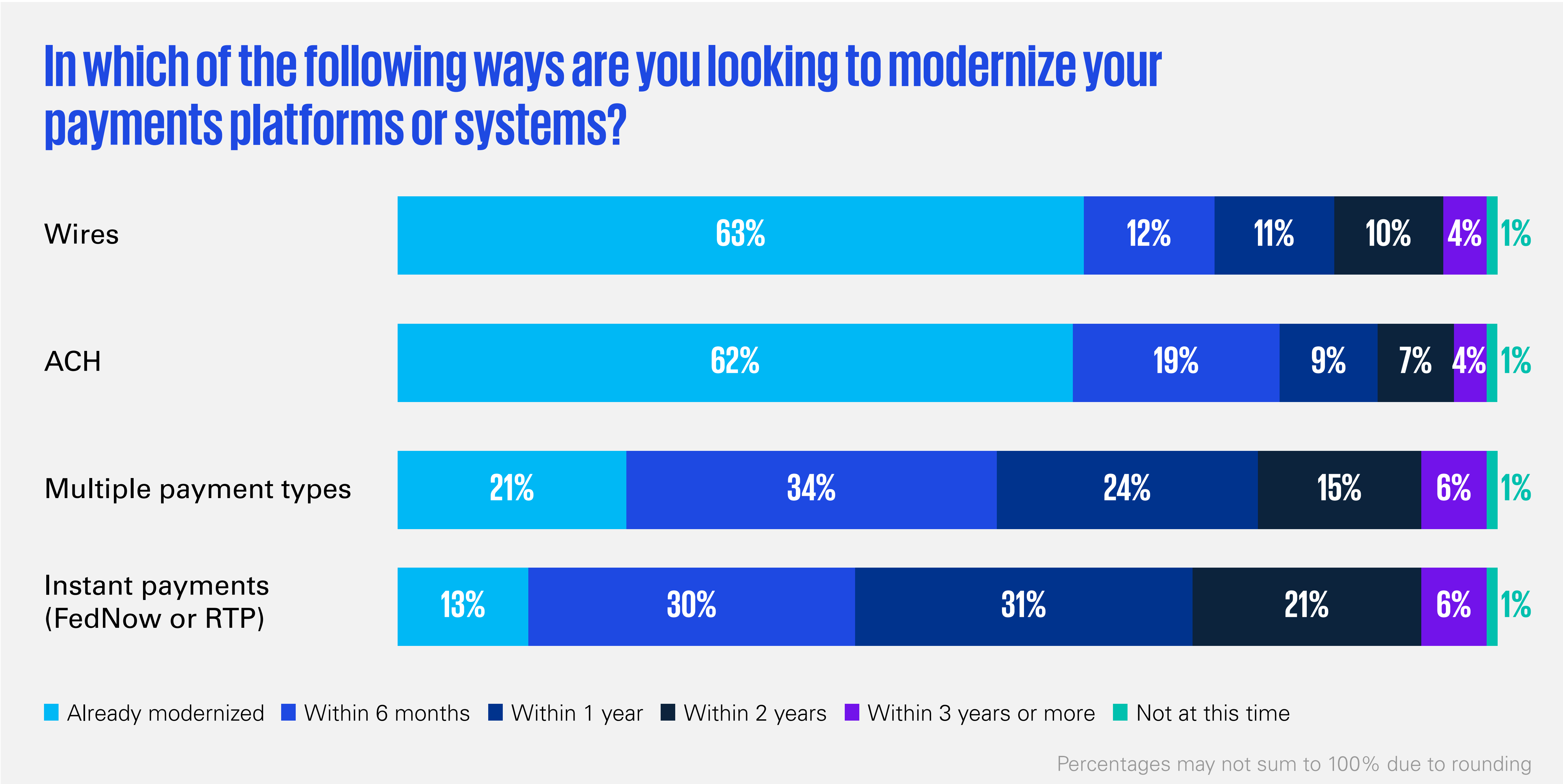


ISO 20022 and instant payments are top of mind in payments and serving as catalysts for payments modernization. ISO 20022 continues to be the burning platform, with banks focused on achieving the industry mandate by 2025. Instant payments are picking up steam as banks look to provide real-time payments capabilities. While banks are in the process of modernizing their payments ecosystems to effectively operate in this new world, they also have an eye on how they can begin to leverage the incremental data that ISO 20022 provides to develop new differentiated value-added opportunities to their customers and drive new revenue opportunities for the bank.”

Courtney H. Trimble
Global Head of Payments, KPMG LLP

The move to ISO 20022 represents a significant change to both payments platforms and the broader payments ecosystem that supports the payments value chain, as the payments messaging language is changing and additional data is now traveling with the payment. This results in organization-wide impacts across a bank’s payments ecosystem, including payments platforms, upstream and downstream interfacing systems, and integration layers. Most banks (63 percent) said that they have already modernized or are in the process of modernizing their wires platforms.

In addition to the ISO 20022 mandate, the movement to instant payments is also serving as a catalyst for payments platform modernization, as banks will need to provide the payments infrastructure and operations to operate in a 24x7x365, high-availability environment. Only 13 percent of respondents have already adopted instant payments, including both RTP (from The Clearing House) and FedNow (rolled out by the Federal Reserve last year). According to this research, 82 percent of banks are planning to implement instant payments over the next two years. In addition to wires and instant payments, 62 percent of banks have modernized or are in the process of modernizing their ACH platforms.



While banks are busy with achieving the ISO 20022 mandate, they are recognizing the value and benefits of the incremental data that ISO 20022 provides, with most executives (76 percent) stating that they view the ISO 20022 mandate not as a regulatory burden, but as a strategic opportunity. In addition, 43 percent of bank executives said their organization generally views the mandate as a key opportunity to drive new value for customers and strategic differentiation, while 33 percent said they see it as a compliance and regulatory exercise with value add. Just 24 percent viewed it as a compliance and regulatory exercise only.

Adapting to new ways of working

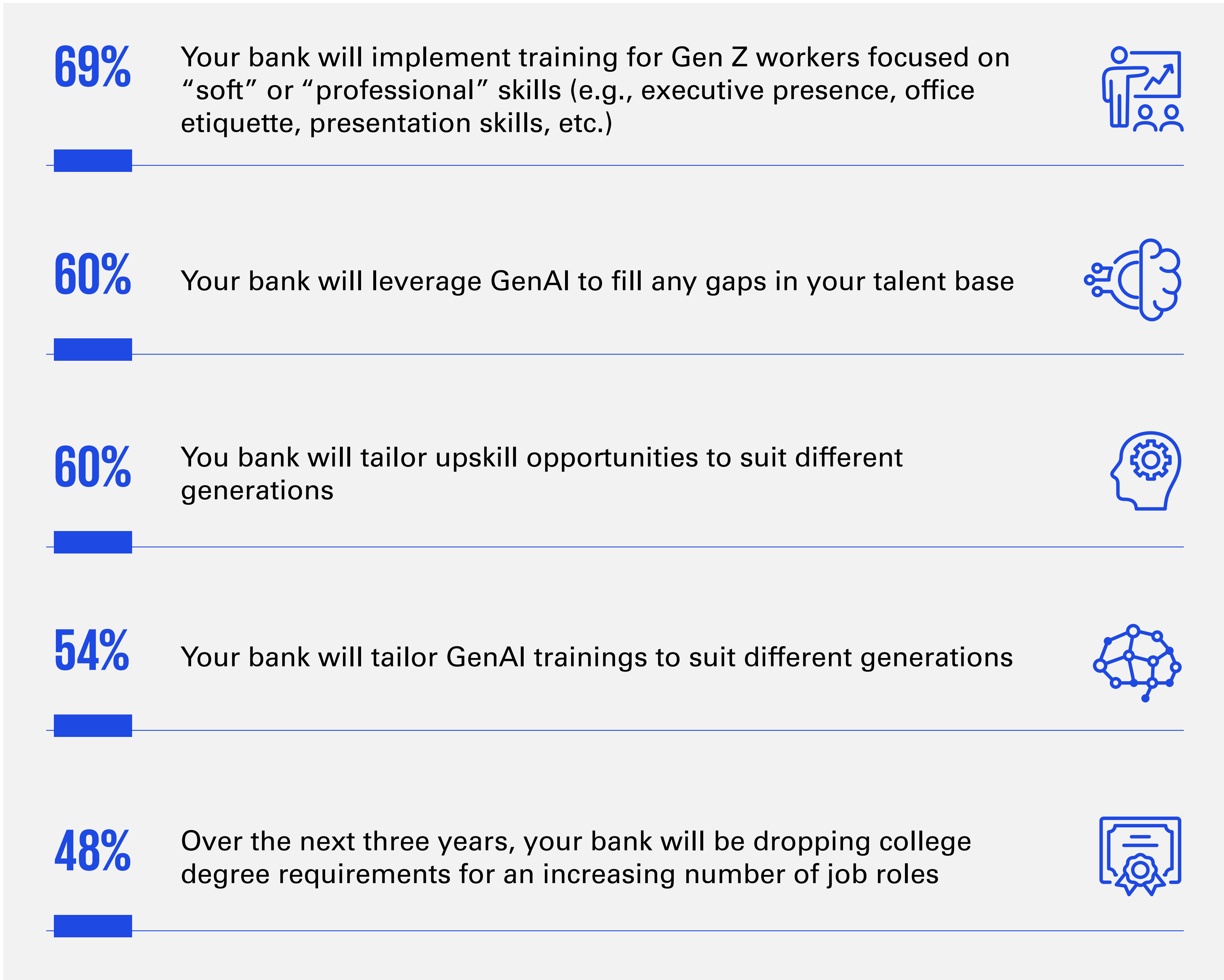
Along with digital transformation, banks are reimagining how their business runs and how work gets done. This research demonstrates the sector’s recognition that technology adoption and skills development go hand-in-hand. Executives showed willingness to both embrace technology to address workforce challenges and empower their people, as well as to adapt talent and workforce policies to position for success in the digital future.

One of the main propellers of workforce change in the banking industry is none other than GenAI. Rather than fearmongering over job losses in the market, the survey finds bank executives envisioning GenAI as a tool of human empowerment, replacing roles rather than people by turbocharging their workforce’s productivity and freeing up time for people to contribute to value-added work. Just by the end of 2024, 37 percent of bank leaders said GenAI will be able to execute from 6 percent to 20 percent of the team’s daily tasks. And 60 percent said their bank will leverage GenAI to fill any gaps in the talent base.

As banks use GenAI to automate routine tasks, it will free up talent to focus on strategic activities that demand a different knowledge base and skill set. Banks recognize the need to reskill and upskill their people to thrive in this new world. For example, nearly half (48 percent) of banks will drop college degree requirements for an increasing number of job roles in the next three years, suggesting a shift toward skill-based hiring

The research also shows the need to adapt to the varying needs and preferences of different age groups in the banking workforce. For example, 69 percent said their bank will implement training for Gen Z workers focused on “soft” or “professional” skills (e.g., executive presence, office etiquette, presentation skills, etc.). Meanwhile, 60 percent will tailor upskill opportunities to suit different generations.

Finally, executives expect a shift towards hybrid working arrangements in the next three years. Nearly half (45 percent) of bank executives said they will opt for a hybrid model where employees split their time between remote and in-office work. Increasing flexible work arrangements such as hybrid or remote work (61 percent) also ranked as the top initiative banks will use to promote employee well-being and address potential burnout.



Risk, regulatory, and tax environment

Regulatory intensity dominates resources and attention	21
Cybersecurity and data protection are the very challenging regulatory risks	24
Banks balance tax uncertainty and opportunities	25
Meeting ESG expectations	26



Regulatory intensity dominates resources and attention

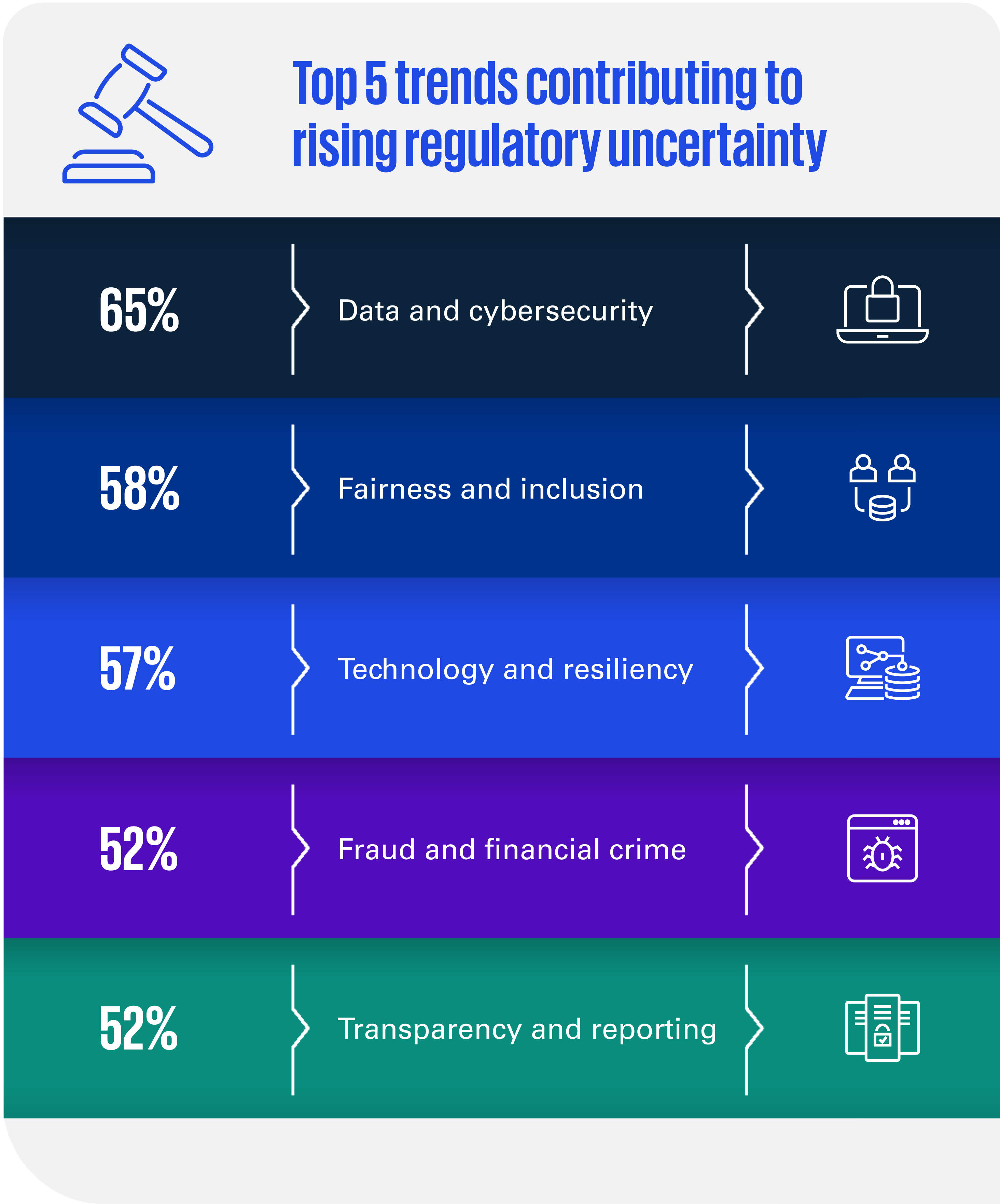
In today’s rapidly evolving banking landscape, regulation and compliance are critical areas of focus for banking executives, with a wide range of rules requiring resources and attention beyond what the sector has dealt with in the past. At least half of executives said data and cybersecurity (65 percent), fairness and inclusion (58 percent), technology and resiliency (57 percent), fraud and financial crime (52 percent), and transparency and reporting (52 percent) were significant or very significant contributors to rising regulatory uncertainty. Even requirements that nearly all banks are expertly implementing against, like capital and liquidity (46 percent) and credit (46 percent), are having a big impact on the risk and compliance function.

Heightened standards—not new rulemaking—are the main driver of the sector’s regulatory burden. Over the next 12 months, the majority of bank executives expect regulatory supervision and enforcement activity to increase across multiple areas: cyber risk (80 percent), data governance (67 percent), financial risk management (60 percent), emerging or disruptive technology risk (58 percent), investor regulations (56 percent), and anti-money-laundering/Bank Secrecy Act (50 percent).

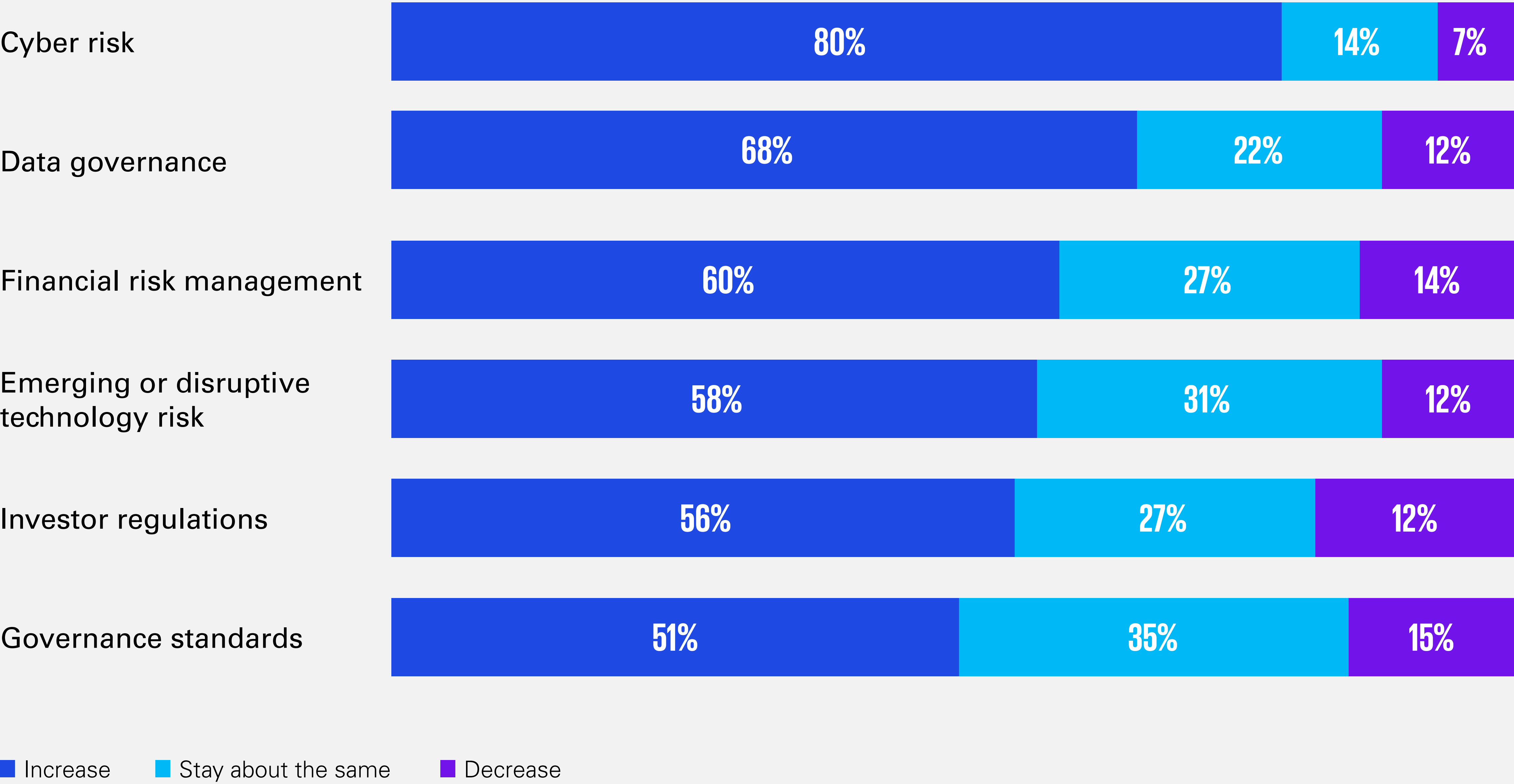


Banks of all sizes are being asked to level up when it comes to meeting regulatory expectations. It can often feel like everything is on the list of examiners across agencies, and that everything matters and is a high priority. The survey indicates how costly it will be for banks to hire talent, bring in advisers, and implement technology needed to manage their regulatory burden.”

Amy Matsuo
US Regulatory Insights Leader,
KPMG LLP



How will regulatory supervision and enforcement activity change in the following areas over the next 12 months?



Top 6 responses are shown Percentages may not sum to 100% due to rounding

Only 27 percent said they believe the number of exams will increase this year, showing that banks’ biggest challenge is the intensity of supervision. In the current climate, banks are dealing with a general raising of the bar by multiple regulatory authorities and in multiple risk categories. For some key areas of regulatory focus, there are no meaningful changes in the wording of bank regulation, yet expectations in those areas have evolved greatly and represent a step change for many banking organizations.

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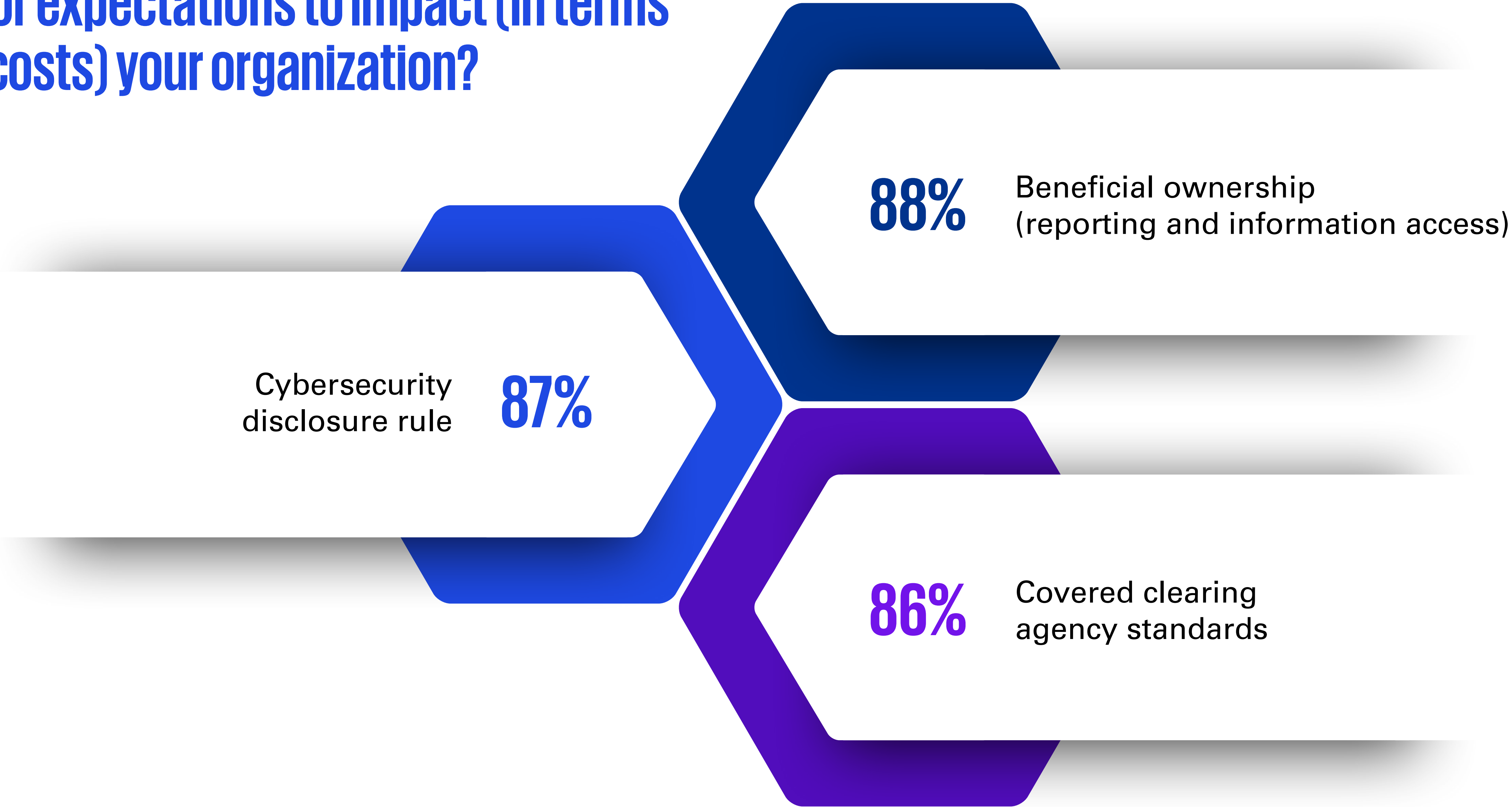
Digitization and automation in the risk and compliance function can greatly help relieve regulatory pressure on banks. However, operational transformation is a longer-term play that is frequently being sidelined as banks address the immediate priorities of the difficult enforcement environment. The issue is that banks are facing so much regulatory intensity simultaneously that it consumes their resources, at the expense of strategic effectiveness and efficiency efforts.”

Brian Hart
Financial Services, Regulatory & Compliance Risk Leader, KPMG LLP



To meet regulatory expectations, bank executives recognize that they must act very quickly. Most expect this change in expectations to impact their organization in terms of time or costs, including ones where many banks are likely already somewhat optimized. The top three new rules and expectations that are expected to have a high (1 percent to 10 percent increase), very high (more than 10 percent increase), or significant (more than 20 percent increase) impact on operational spend are the cybersecurity disclosure rule, T+1 standard settlement cycle changes, and beneficial ownership.

To what extent do you anticipate the following new rules or expectations to impact (in terms of time or costs) your organization?



The undeniable pressure on resources to address regulatory expectations will demand a greater focus on risk and compliance transformation in the sector. Banking leaders will need to have thoughtful conversations about the strategic investments needed to simplify, rationalize, and centralize risk and compliance frameworks, processes, and controls. However, it will be difficult to prioritize as they deal with increased scrutiny by examiners across multiple risk categories.



Cybersecurity and data protection are the very challenging regulatory risks

Although basically every area of risk in our survey was considered a significant contributor to regulatory uncertainty, the top priority for the sector is clear: ensuring compliance with regulatory requirements related to data governance and security—a consistent theme across all the survey findings.

Cybersecurity—which was found to be the top risk to bank growth—was also seen (along with data) as the highest contributors to rising regulatory uncertainty. Almost two-thirds (65 percent) of respondents identified data and cybersecurity as a significant concern, and concern was even more pronounced among larger organizations, with 73 percent of banks with \$50 billion or more in total assets expressing worry.

The research indicates that significant holes in bank cybersecurity strategies and processes remain in an industry that is a prime target for hackers with numerous motives. Despite increasing security investments—55 percent of executives said their cyber budgets were set to increase—22 percent of executives still felt their bank was not adequately prepared to protect customer data, privacy, and assets. At the same time, 68 percent of executives think their bank is already investing sufficiently in cybersecurity protection.

“

Cybersecurity stands out as the highest area of risk for the banking sector when viewed through every lens of our research. With major data loss incidents grabbing news headlines and the attention of regulators focusing on how the industry protects sensitive customer and financial data, robust cybersecurity measures will be vital to both bank performance and preserving trust in the capital markets.”

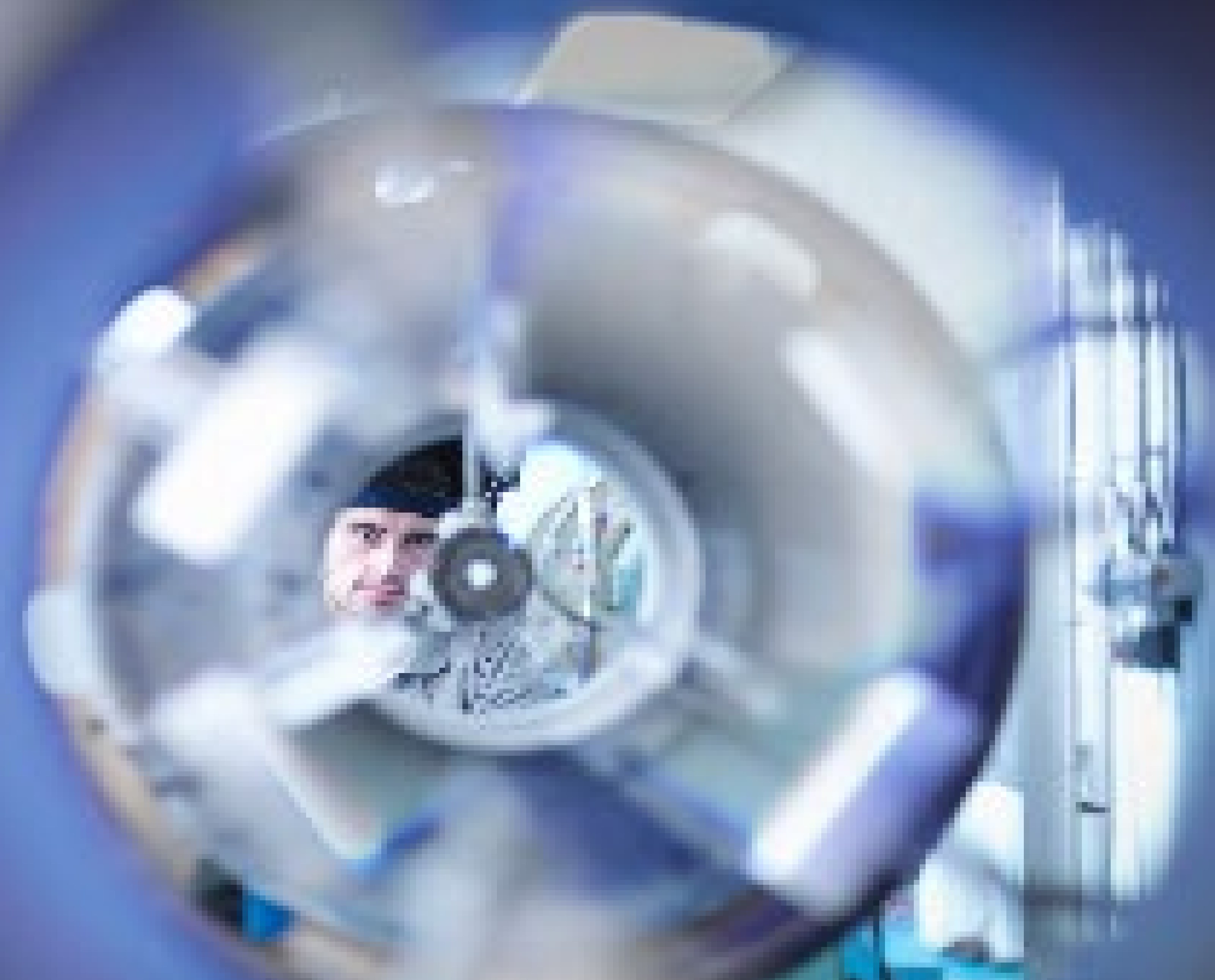
Matthew Miller

US Banking Cyber Security Services Leader, KPMG LLP

Taken together, these findings demonstrate concern that increasing sophistication of known cyber-attack methods (such as ransomware and third-party exposures), newer tactics that leverage GenAI and other emerging technologies (such as synthetic IDs and deep fakes) and attackers motivated by more than financial gain (such as state actors in China, Russia, and Iran) could penetrate the bank—despite the already substantial sums being spent on securing data and systems.

Increasing regulatory scrutiny and action also underpins this view. A significant majority (80 percent) of banking executives said they believe that regulatory supervision and enforcement activity will increase in the area of cyber risk. Additionally, 67 percent expect increased regulatory scrutiny in the realm of data governance.

While others are abating, these are also areas where more rulemaking and guidance is coming from agencies like the National Institute of Standards and Technology.



Banks balance tax uncertainty and opportunities

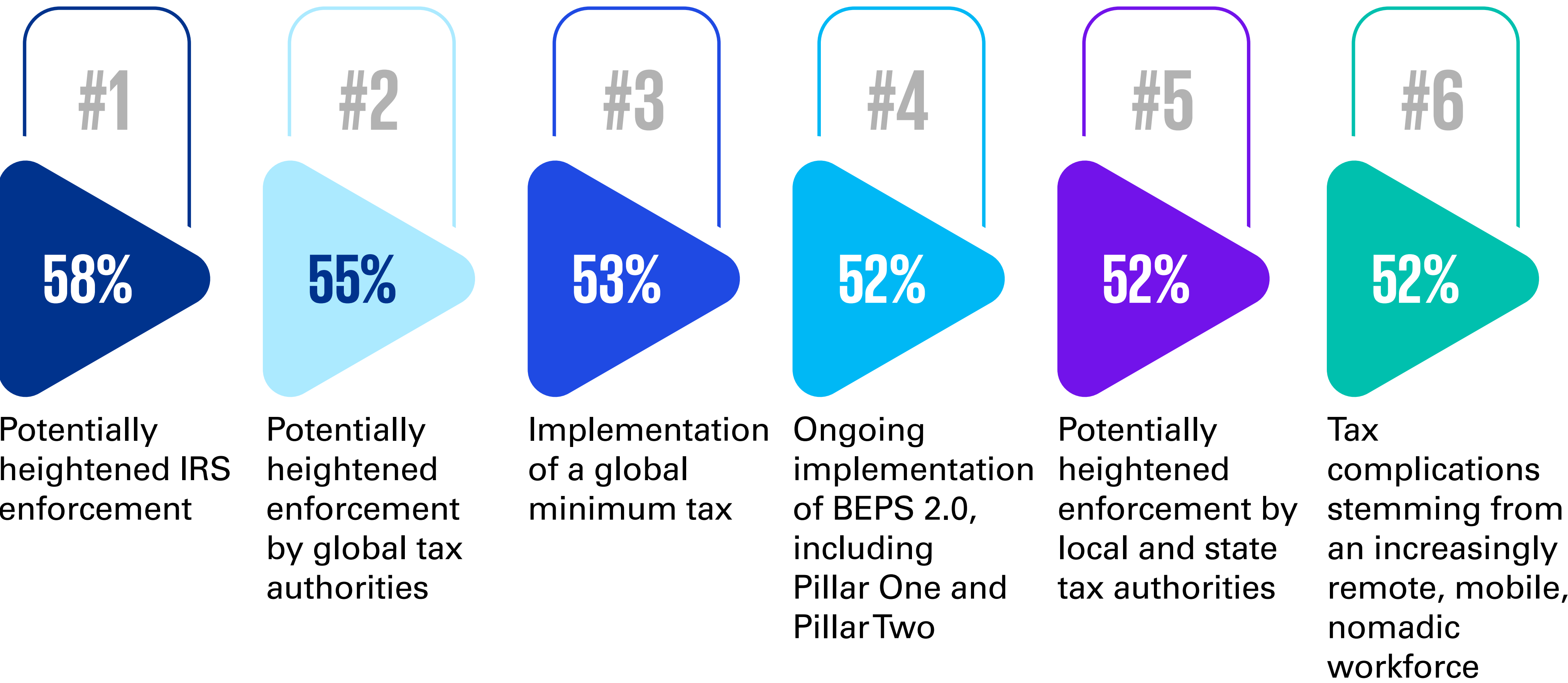
Tax uncertainty is rising, and it’s a significant challenge for bank executives. The research reveals several contributing factors, led by potentially heightened Internal Revenue Services (IRS) enforcement (58 percent), which could increase tax costs and add to the workload of tax filing, compliance, and response.

Some legislative developments also create opportunities for banks since changes in tax provisions can make borrowing and investing through banks more affordable. For example, a majority (58 percent) of banking executives expect the expiration of some of the 2017 Tax Cuts and Jobs Act (TCJA) provisions to have a positive impact on their organizations. This likely reflects the belief that the sunseting of individual provisions of the TCJA, which put a drag on interest deductions and other lending-related expenses, outweigh the incremental costs that changes on the corporate side will impose on bank customers and banks. In addition, it is possible certain fees on investment will be more favorably taxed when the TCJA expires.

Sunseting of the TCJA (49 percent) and implementation of the corporate alternative minimum tax (49 percent) also ranked as the lowest contributors to rising tax uncertainty—indication that banks to which these rule changes apply have taken steps to assess impacts and adjust tax planning strategies.

Last, more than half (54 percent) of banking executives said they are highly focused on deferred tax assets when managing deferred capital. Many banks are facing a regulatory capital dilemma as they are required to hold more capital against their risk weighted assets to comply with sector safety and soundness rules and, for some banks, fewer deferred tax assets may count towards regulatory capital. Some deferred tax assets can be managed using different tax elections. While it won’t solve a regulatory capital shortfall, it is often a less disruptive way to increase or free up regulatory capital.

Top six issues contributing to rising tax uncertainty:



Top 6 responses are shown



Meeting ESG expectations

Although nomenclature and terminology are changing, environmental, social, and governance (ESG) initiatives and commitments continue to have both regulatory and reputational implications on banking institutions. The survey results indicate that despite a recent period of regulatory discord and divergence, the sector's focus on ESG is mostly stable, with many banks having made progress toward complying with evolving rules and expectations and started to invest in the good of customers and communities as part of the normal course of business.

The largest portion of banks are holding steady when it comes to their ESG strategies and activities. Almost half said they are following through on existing ESG initiatives or commitments (45 percent). Meanwhile, 30 percent of respondents said their banks were scaling back and 5 percent were halting them, a sign that regulatory focus is shifting as other risks escalate in the financial services industry and the capital markets. Least common, 21 percent of banks said they were expanding ESG initiatives and commitments. These banks may anticipate a financial or investment opportunity from new environmental or social initiatives, or, they have made minimal commitments to date and are now playing catch up to the rest of the industry.

In the environmental space, the majority of banks reported being at least “somewhat prepared” to meet requirements and expectations related to climate risk, such as the Corporate Sustainability Reporting Directive, California climate disclosure rules, and bank regulatory climate scenario analysis. But there is still much work to be done for the industry to achieve full preparedness for climate risk reporting. In especially effort-intensive areas of readiness, nearly half or more than half of executives said their banks were not very or completely prepared: materiality assessment and metric identification (56 percent), design and implementation of controls (52 percent), controls testing and validation (50 percent), and process design and documentation (48 percent).

Driven primarily by regulatory compliance mandates, such as fair lending rules, banks are also continuing activities that have long been underway, but which they can now claim credit for under the ESG space. For example, top responsible banking offerings help promote social and economic inclusion and community impact: financial education or incentives to customers for savings (51 percent), new branches in underserved neighborhoods (49 percent), benefits to upskill the workforce (48 percent), lending to minority-owned businesses (44 percent), low-cost checking accounts (37 percent) and funding for affordable housing projects (36 percent).

In addition, a smaller but still notable portion of banks are offering sustainable products as part of the broader responsible banking strategy. These include cash-back options on checking accounts for shopping at certain sustainable companies (32 percent), credit or debit cards made from sustainable materials (30 percent), solar or other renewable energy-focused home improvement loans (21 percent) and tools to help customers track their carbon footprints by analyzing purchases (21 percent).

Key takeaways



Banks should focus on the following areas in their enterprise transformation journey:

Click on the boxes below to know more:

Growth and strategy



Operations and modernization



Risk, regulatory, and tax environment

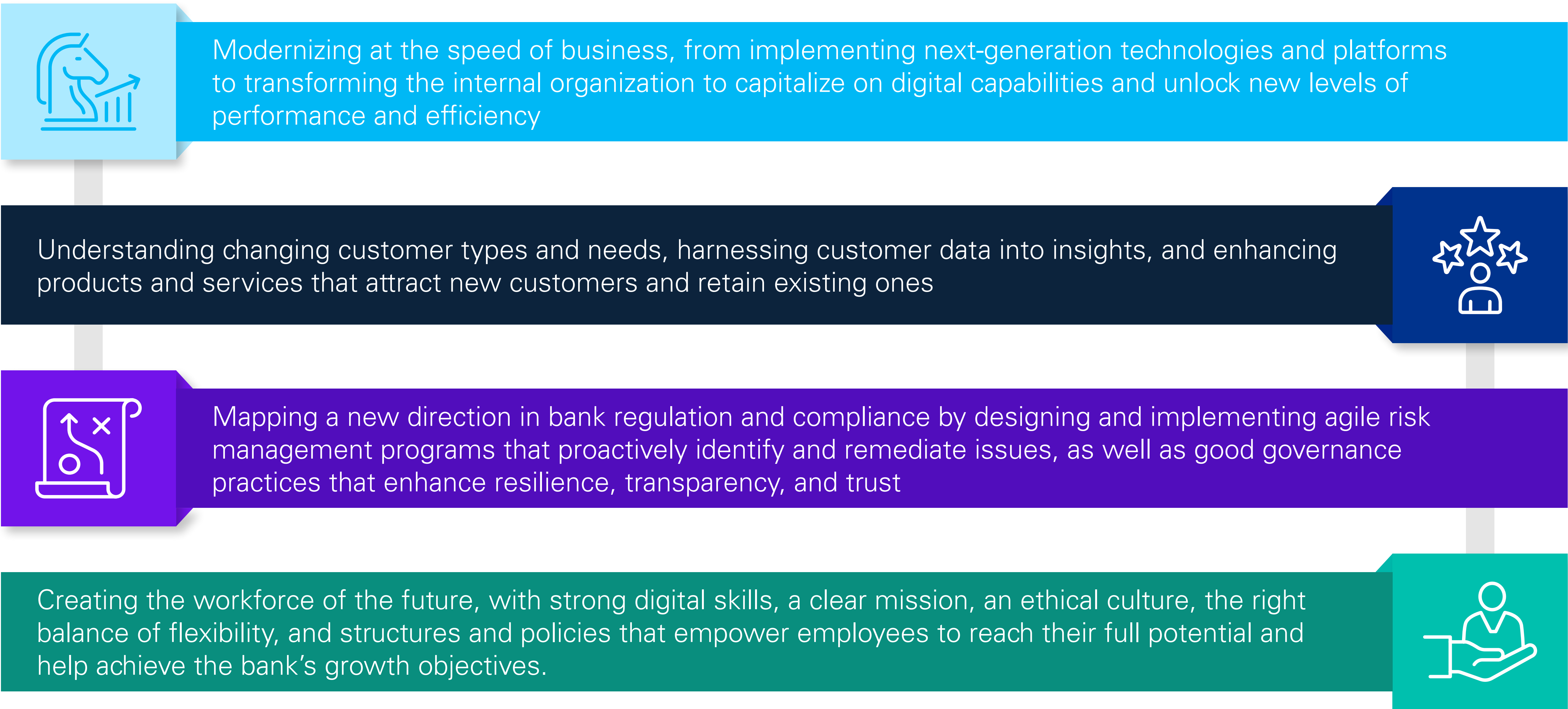




How KPMG can help

Only future-ready banks will thrive in 2024 and beyond. The KPMG national banking practice sees today’s environment of converging economic and industry challenges and disruptions as a catalyst for change—a not-to-be-missed chance to take advantage of the current and emerging opportunities that surround us.

Approximately 3,000 professionals and nearly 400 partners are here to help banking leaders with key strategic insights, decisions, approaches, and actions as they usher in a new era in banking. With deep industry experience, fresh thinking, and leading-edge tools and methodologies, we assist banks in navigating the unfolding banking landscape, including:

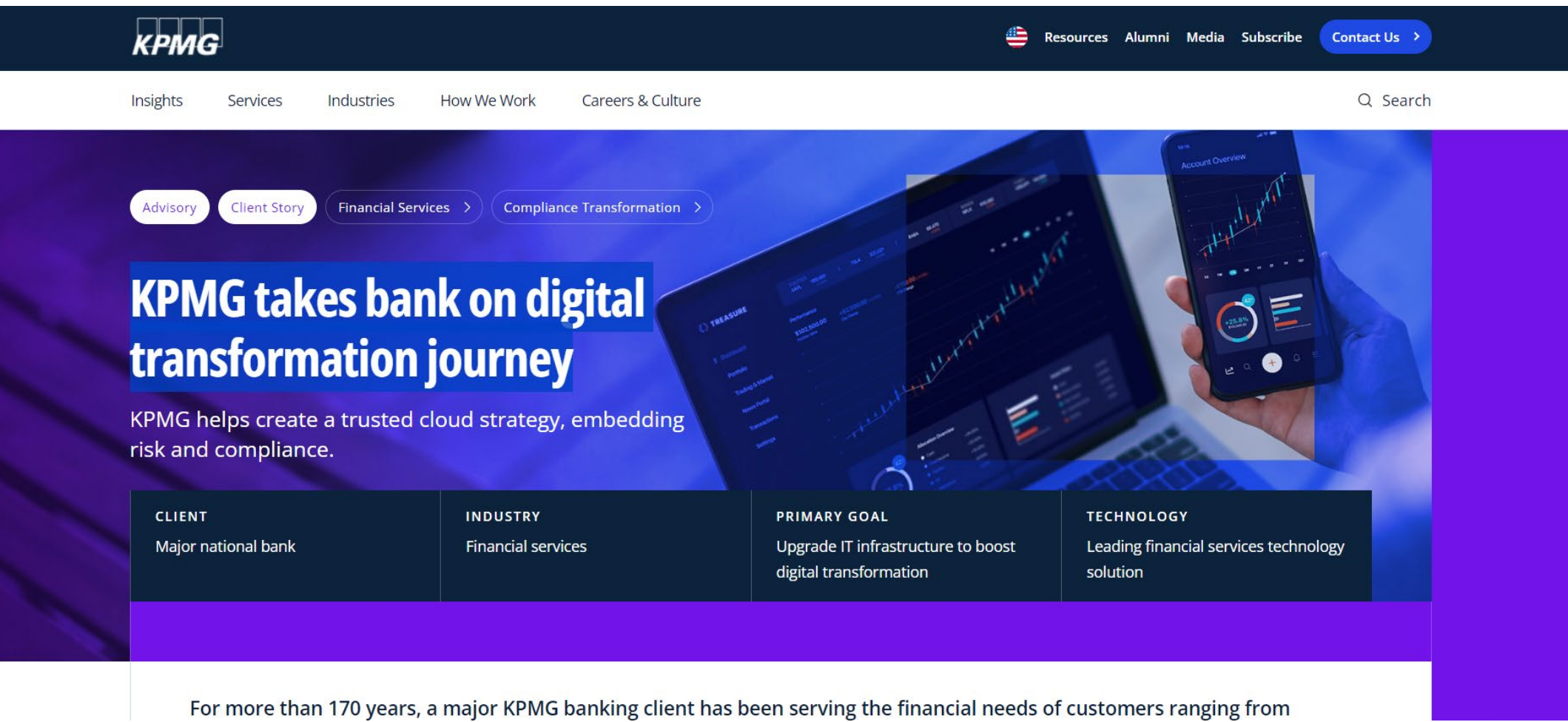


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