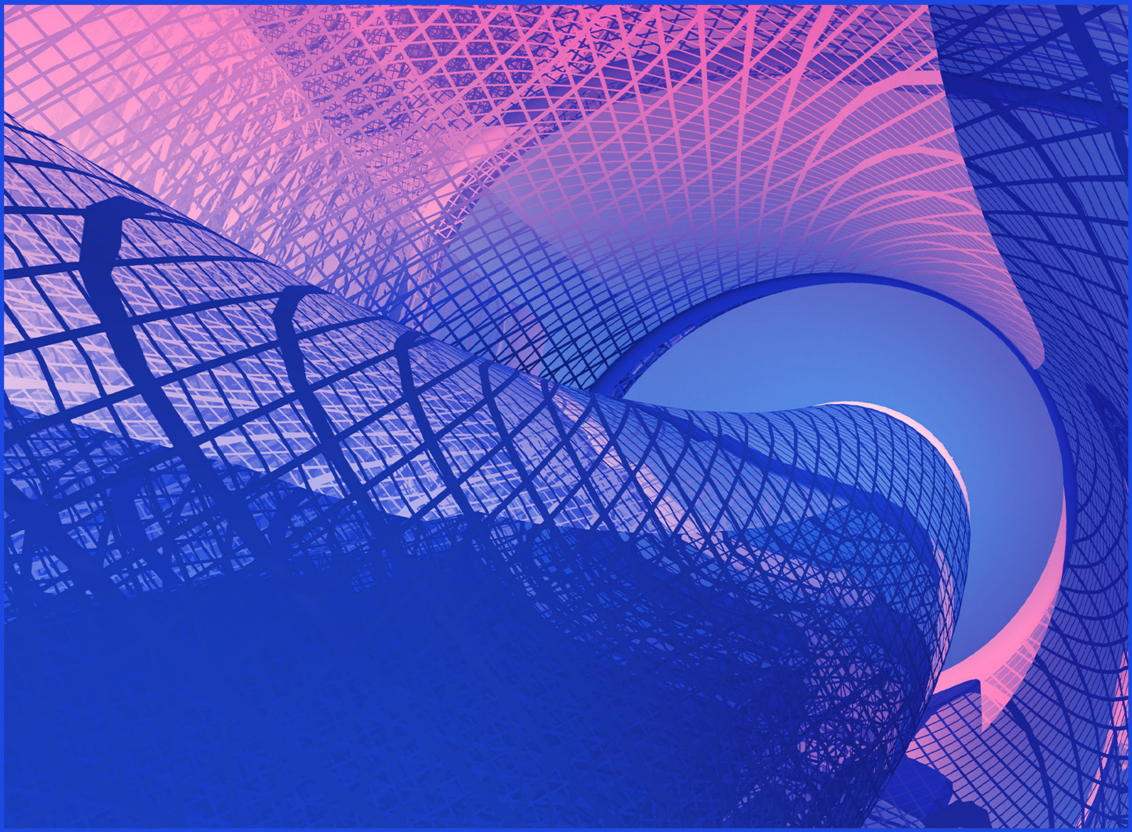
Inflation prompts multifaceted response by banks

2022 KPMG Inflation Survey



With inflation as high as it has been in decades, some of the largest banks in the United States said in a KPMG LLP poll they are employing a multiple-front strategy to help manage the impact of rising costs in this volatile operating environment.

Interestingly, while almost all banking respondents made it clear that they are focused on cost management, they also plan to increase their investment in technology aimed at operational improvement and meeting customer needs.

Operational improvement, agility, and customer service are key drivers regardless of current economic conditions.

It also is noteworthy that even while banks are examining a possible reduction in force in certain areas, they also expect they'll need to boost employee compensation through 2023 in an effort to retain top talent. Further, many appear to be intent on trimming spending for office leasing while expecting a sizeable portion of their staff to work from home.

In late May, we surveyed 300 finance executives—CFOs, Heads of Finance, Comptrollers, Treasurers—across five industries, including 60 banking executives, primarily from institutions with balance sheets larger than $10B in assets.

Other industries represented

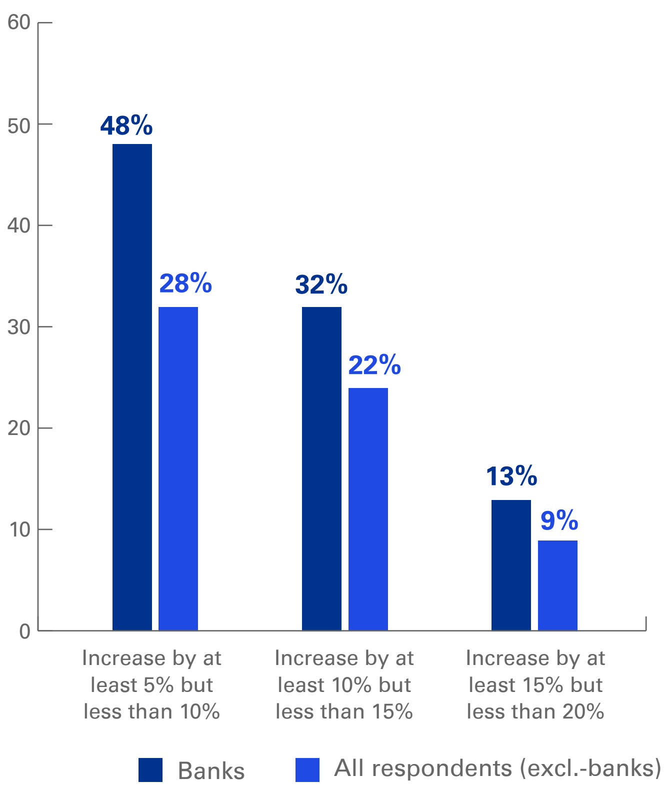
- Consumer and Retail
- Energy, Natural Resources, and Chemicals
- Industrial Manufacturing
- Insurance

Key findings

Spending on digitization of operations is an increasing priority

Nearly all are increasing technology spending this year – anywhere from five percent to almost 20 percent compared to 2021.

How technology spending is expected to change to mitigate inflationary effects this year vs last year

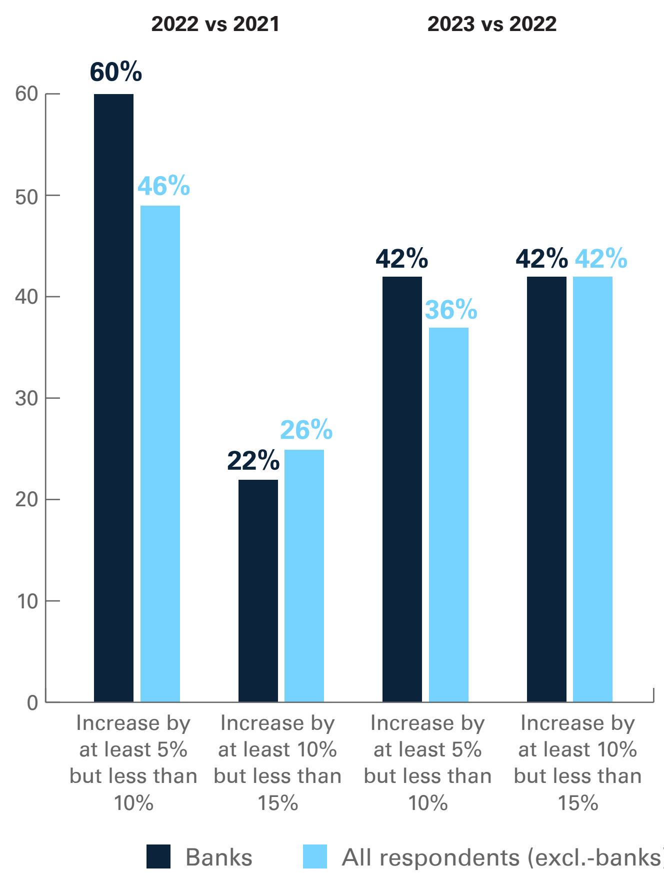


Indeed, the topic of technology as a strategic investment in this inflationary environment has come up in recent industry analyst calls, and bank executives acknowledge that ensuring they have the technology resources in place to support operational transformation projects is critical for banks to be ready to compete when the economy improves, and inflation is under control.

Wage inflation and workforce matters have moved up on bankers' agendas

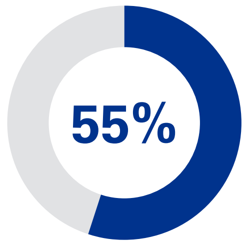
Rising wages are adding to banks' cost pressures. As a result, many institutions are left weighing the need to attract and retain talent against spending concerns.

Based on inflation, how wage costs are expected to change this year and next compared to the previous year

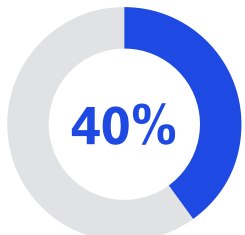


As for wages in 2023, the vast majority of bankers said they expect wages to rise anywhere from five percent to 15 percent over the next 12 months. This is interesting when viewed against a backdrop of the August 2022 unemployment rate slipping to 3.5 percent—the lowest level in decades—and the addition to the U.S. economy of more than 530,000 jobs, which may prompt the Federal Reserve Board to extend its recent series of rate increases.

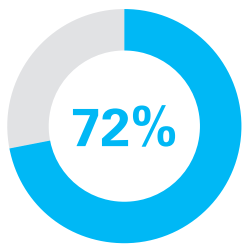
Strategies banks are pursuing to offset the impact of increased wage costs



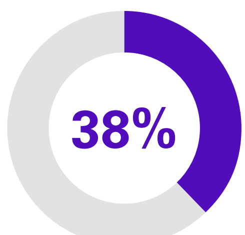
Considering an increase in offshoring and outsourcing



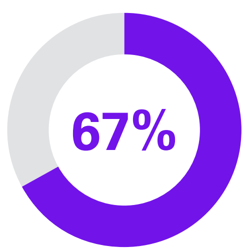
Considering reducing non-salary compensation



Say right-sizing staff is in the works



May cut back on new hires, at least in the near term

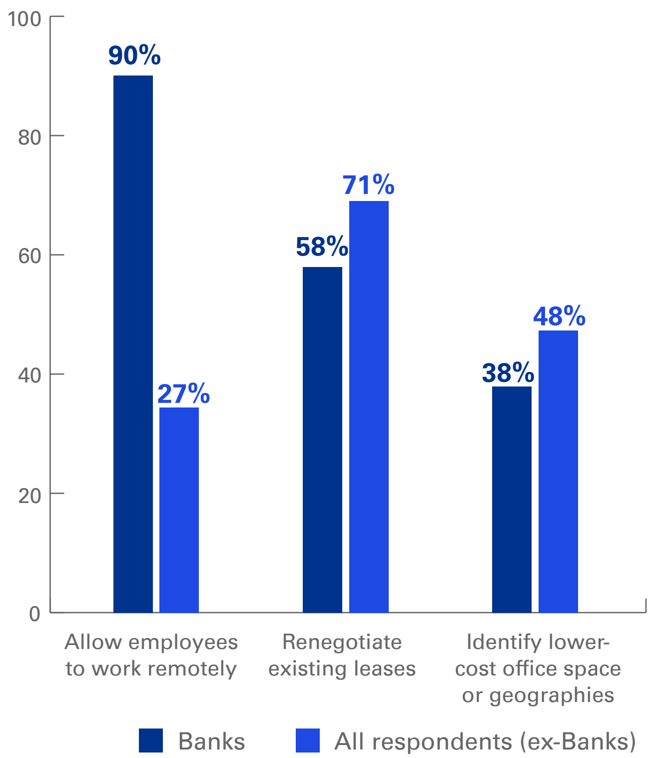


Looking into geographic redistribution of their workforce to lower-cost regions

Office-space leasing issues are consuming more of management's time

An eye-opening survey result was that nearly all banking respondents—90 percent—said they would allow full-time remote work. By contrast, 39 percent of all respondents—also a surprisingly high figure—said they would permit employees to work remotely full-time.

Action companies plan to take to reduce real estate and related spending over the next 12 months

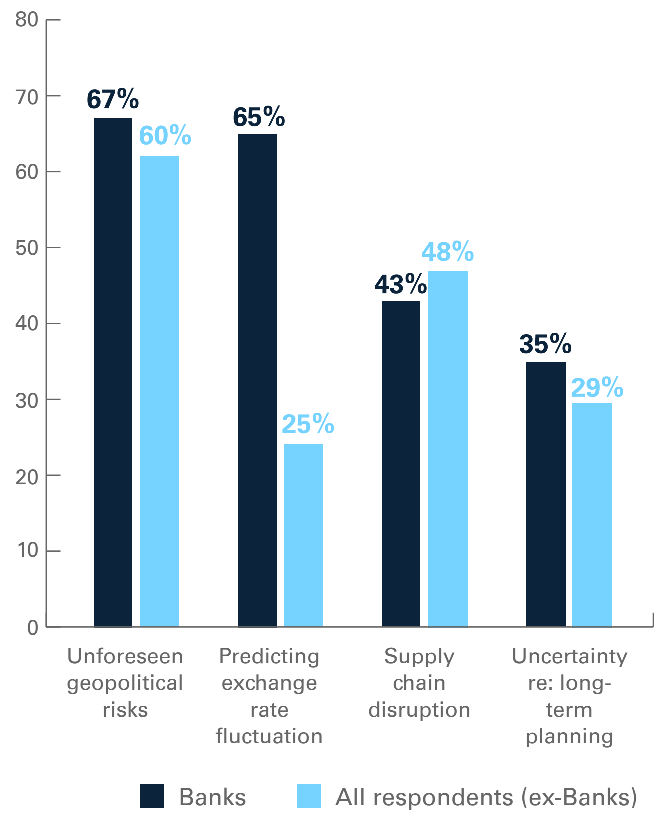


This development, and the fact that many firms are looking to renegotiate leases and even identify less-expensive space, could have a significant impact on the commercial real estate economy in many cities.

Global political instability could spark increasing credit risk

In the current environment, banks are baking geopolitics more heavily into their risk and inflation scenario planning. These risks have significant implications relating to exchange-rate fluctuations and operational planning as a result of global supply-chain disruption.

Geopolitical realities, exchange rates, supply chain, long-term planning top banks' inflation-related concerns

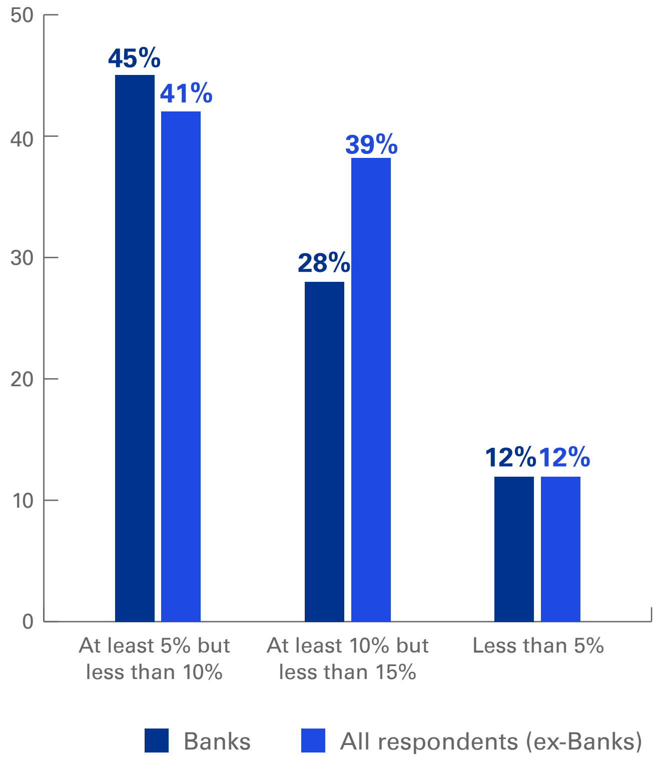


Inevitably, geopolitical risk is linked with credit risk. The volatility associated with the current geopolitical environment requires banks to deeply explore the possible downside risks and plan prudent responses.

Despite slowing economic growth, banks are looking to remain competitive and productive by accelerating Capex

There is a sense of urgency among respondents not only in technology spending, but other capital expenditure projects. In this uncertain environment, banks are revisiting their portfolio of big projects and investments while deciding which non-strategic spending plans should be delayed.

Amount of Capex or other spending companies planning to bring forward in the next six months



The upshot is that banks are taking a close look at all critical, capital-intensive projects and trying to figure out how to get them done quickly, and which must undergo rigorous review with the possibility of being eliminated.

KPMG perspective

Banks' commercial clients will face severe financial management challenges related to inflation. For example, commercial treasurers will need to develop more sophisticated, accurate, faster processes for activities such as cash forecasting, cash and liquidity management, and accounts receivable management, to name just a few. As they work to manage the impact of inflation on their own businesses, banks should also view this challenging environment as an opportunity to provide more high-value financial advisory and financial infrastructure services to customers.

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