KPMG CFO banking roundtable

Trends and insights from industry leaders

April 2021

What banking industry CFOs need to know—and do—in 2021

All things being considered, the banking and financial industry has weathered the COVID-19 pandemic relatively well. There hasn't been news about banks in danger of shutting down or large financial institutions going under. Perhaps the regulations enacted in the wake of the 2008 recession strengthening capitalization requirements and curtailing risky investments contributed to the industry's stability.

But this doesn't mean that challenges of running a profitable, efficient enterprise do not exist or need to be addressed. KPMG recently assembled CFOs and other finance executives from the banking industry to discuss trends and key challenges they expect to face in the near- and long-term. These professionals, who primarily came from large banking institutions with more than $50 billion in assets, also considered strategies for 2021 and beyond.

Key business challenges

The attendees pointed to the following as some of the key challenges they're facing in the current environment:

Growing the business in a low-interest environment: The biggest challenge for the banking industry is trying to be profitable and grow the business in a low-interest-rate environment, with mortgage rates and lending rates being close to zero. Banks can no longer generate significant income by taking advantage of interest rate spreads (e.g., lending out money at higher rates than they pay depositors) or putting money into riskier but potentially higher-return-generating investments.

As a result, many banks are offering other financial products or services that are not interest rate dependent and can generate fee-based revenue, such as advisory, cash management, or wealth management services. The attendees recognized that when you manage assets, you can make money whether the market goes up or down.

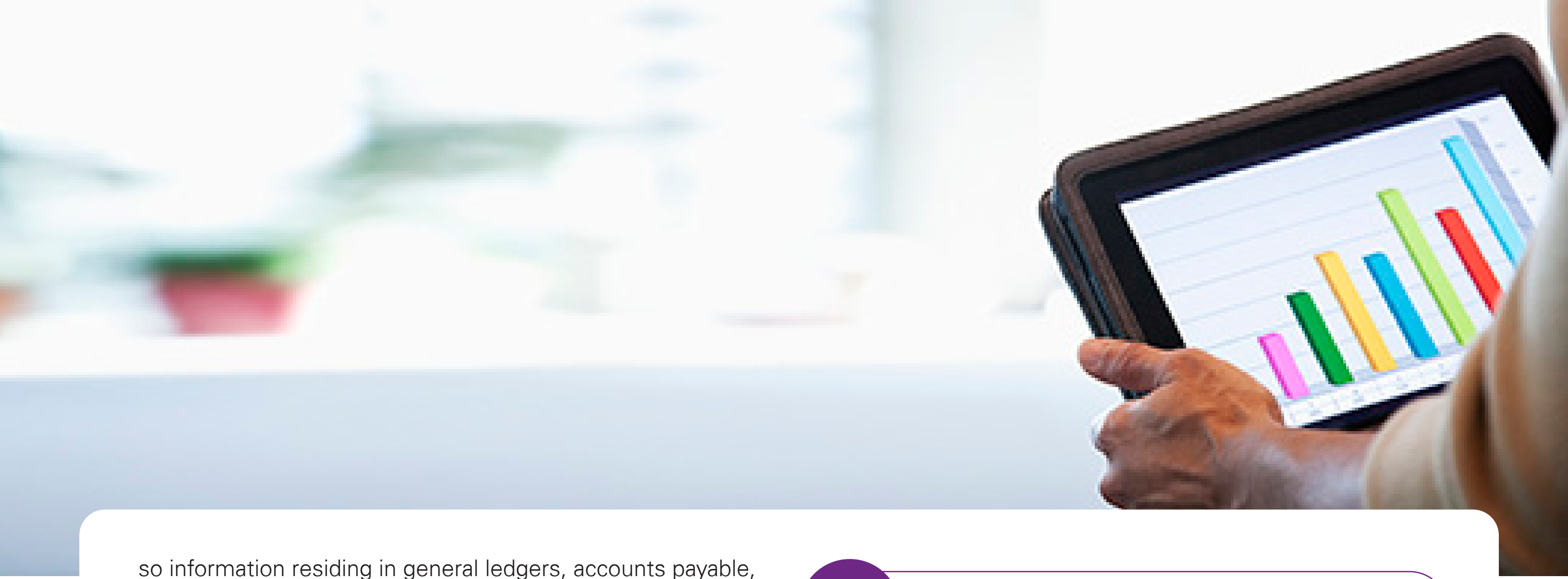
> In this low interest environment… banks can no longer generate significant income by taking advantage of interest rate spreads or putting money into riskier but potentially higher-return investments
>
> — **Brian Anderson,** Principal, KPMG

Some banks are also offering products such as V-cards (or virtual cards)—essentially prepaid, single-use payment cards—that generate interchange fees for the bank.

Modernizing the back office and financial systems: Due to increasing regulations and responsibilities, banks are under pressure to better automate and integrate their operations. For example, as a result of the pandemic, banks were required to make forgivable Payroll Protection Program (PPP) loans to businesses (as long as the businesses met certain conditions). Banks were charged with distributing the loans, which meant modifying their systems to track and distinguish between PPP loans and non-PPP loans.

Many banks were able to upgrade or overhaul their legacy systems to ensure that the loans were being used for the right purpose, that the borrowers met the conditions of the loan, and documentation was provided to validate this. Others have not been as successful and are still struggling to transform their systems to accommodate the initial and continuing PPP loan program.

Banks also need to modernize their financial back office and the core set of systems used to report results and monitor their own financial health. This means utilizing common definitions and single data models



so information residing in general ledgers, accounts payable, accounts receivable, fixed assets, project accounting, and management reporting systems can be shared and understood by multiple teams.

What's trending in banking

More mergers & acquisitions (M&As): The attendees noted that they've been witnessing an increase in M&As throughout the industry, indicating that this is a top-of-mind topic. Among the notable transactions discussed were Morgan Stanley acquiring E-trade, Franklin Templeton acquiring Legg Mason, and Charles Schwab acquiring TD Ameritrade.

Even though most consumers would not view these institutions as traditional "banks", they are major financial institutions seeking access to the retail market for additional cash deposits. It certainly offers a blueprint to banks looking for business expansion opportunities via smart acquisitions in order to boost revenue and customer base in this low-interest-rate environment. From a CFO's perspective, these mergers offer the opportunity to grow the balance sheet without incurring significant "run the bank" operating costs.

Updating technology and D&A capabilities: Banks are also looking to upgrade their technology systems, which include integrating innovative data and analytics (D&A) capabilities. It's more important than ever to have the right technology in place that utilizes D&A to derive real insights and drive deeper meaning from available internal and external data. Many attendees discussed how they've increased investment in their core technologies and built out their technology architecture in order to be more flexible and better able to react quickly to changing trends and developments.

This process also includes developing a better, stronger relationship with their information technology (IT) teams. At the same time, it may include hiring the right tech talent. Some banks possess in-house expertise capable of selecting and implementing innovative technology programs, and making sure that the new and legacy tech systems work together. But in many cases, they may need to consult with a third party for guidance about the right platforms and how to architect and implement them.

Recent changes impacting leaders

Coping with an uncertain regulatory environment: Most of the attendees believe that with the new administration, there will be more regulation and more reporting requirements than in the past. This included discussions about the concept of tiered capital and how much capital a bank would need to maintain based on the riskiness of its asset base. There also was some concern about how the multitrillion dollar stimulus package will impact the banking industry (for example, in the way that the COVID-19 PPP requirements did).

Many banks have personnel dedicated to keeping abreast of potential regulatory developments; others retain a third-party to perform this service and also to offer guidance on how to prepare for regulatory changes.

Addressing the "new" workplace: As with many other industries, COVID-19 resulted in banking personnel working remotely either full-time or certainly more frequently than in the past. This has raised a number of challenges, chief among them are:

— How do you keep team members connected in a virtual world?

— How do you keep them engaged?

— How do you maintain a company culture?

This is partly a technology issue, but equally a human resources issue to make sure that employees working remotely are both productive and thriving. For example, what do you do to ensure that personnel who've recently started working for the bank get a similar experience as those who've been employed for a while and are already steeped in company culture?

> 80% of attendees said their teams have not physically returned to work and 20 percent were hybrid (part virtual/part in person)

Key takeaways for banking industry CFOs

Careful underwriting of loans is increasingly critical: Although most banks have gotten better at this since the 2008 recession, adopting sound lending policies and processes continues to be critical in these uncertain times. Each bank may have a "secret sauce" proprietary model for making highest quality loans, but the model typically needs continual monitoring and adjustments to limit exposure of nonrepayment and defaults.

This, of course, ties into the need to keep upgrading technology and D&A systems and maintaining good risk management practices so the bank remains well capitalized and able to handle unexpected downturns.

Developing a roadmap for the future: Roadmaps can help banks get a better understanding of what they need to do in the short-term and the long-term, what they need to be focused on the coming year, in the next five years, and so on. By doing this sort of planning, complete with visuals, bank leaders can get a better grasp on how they can build and grow in an incremental fashion and the interim issues they need to address before they get to their final stage vision.

There is no one "right answer" to these questions. Each institution may have a unique approach and consider multiple factors, for example where the bank is in its business lifecycle, its investment portfolio, the capabilities of its technology and operations platforms, and of course, its business strategy.

How KPMG can help you

We've helped hundreds of major banking institutions transform their back-office operations, drive performance and efficiency, enhance liquidity, and strengthen their financial foundation. Our technology specialists have created and helped implement intelligent automation soutions that take advantage of D&A to provide insights and deeper understanding of the bank's own internal operations and financial standing, and more accurately forecast the types and volume of services needed, and alert it about impending changes.

Related services

Core financial systems modernization (ERP+) We can help you accelerate your transition to cloud through leading practices, pre-defined operating models, well-established technology solutions, and a future-ready delivery framework.

Extreme finance automation We can help you evolve your digital ecosystem through the adoption of extreme automation.

Enhanced data & analytics reporting We can help you create a data strategy and governance that provides the foundation for success and explore cutting edge technologies to increase the speed and quality of insights.

Banking integration playbook (for finance) We can help you accelerate value creation and reduce risk with an extensive end-to-end bank integration methodology.

Contact us

Ron Walker
Service Network Lead, Finance Transformation
T: 858-750-7057
E: rwalker@kpmg.com

Brian Anderson
Principal, Advisory Finance Transformation
T: 908-868-5333
E: bcanderson@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia