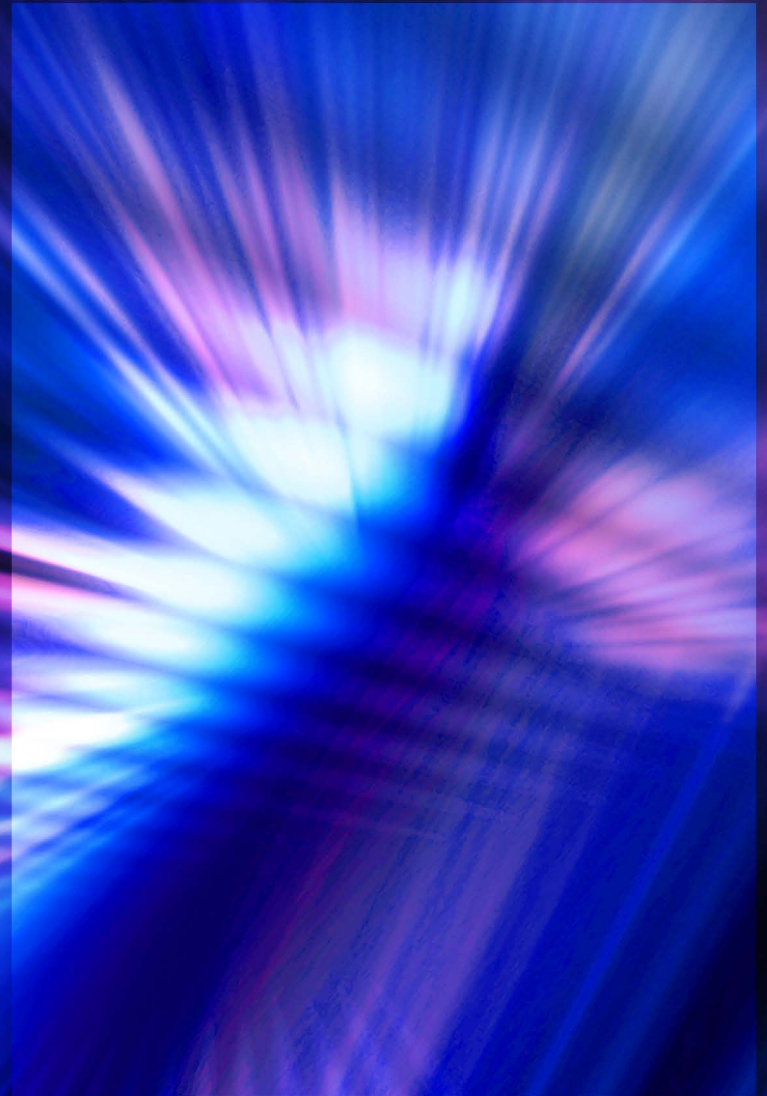




# Shifting to a higher gear

Top issues banks face in 2022 and beyond





## Executive summary

A relentless shifting of the competitive banking landscape has heightened the need for speed in the race to meet our increasingly tech-savvy customers' needs.

As we look over the horizon, we expect that the ability of industry executives to swiftly anticipate, react, and adapt to challenges and opportunities will be among the most critical success factors in the evolution of the bank of the future.

As much as we had hoped a return to "normalcy" would already have occurred, the reality is that the road back continues to have curves and detours. Work-from-anywhere and return-to-office topics continue to dominate discussions at banks of all sizes in all geographies.

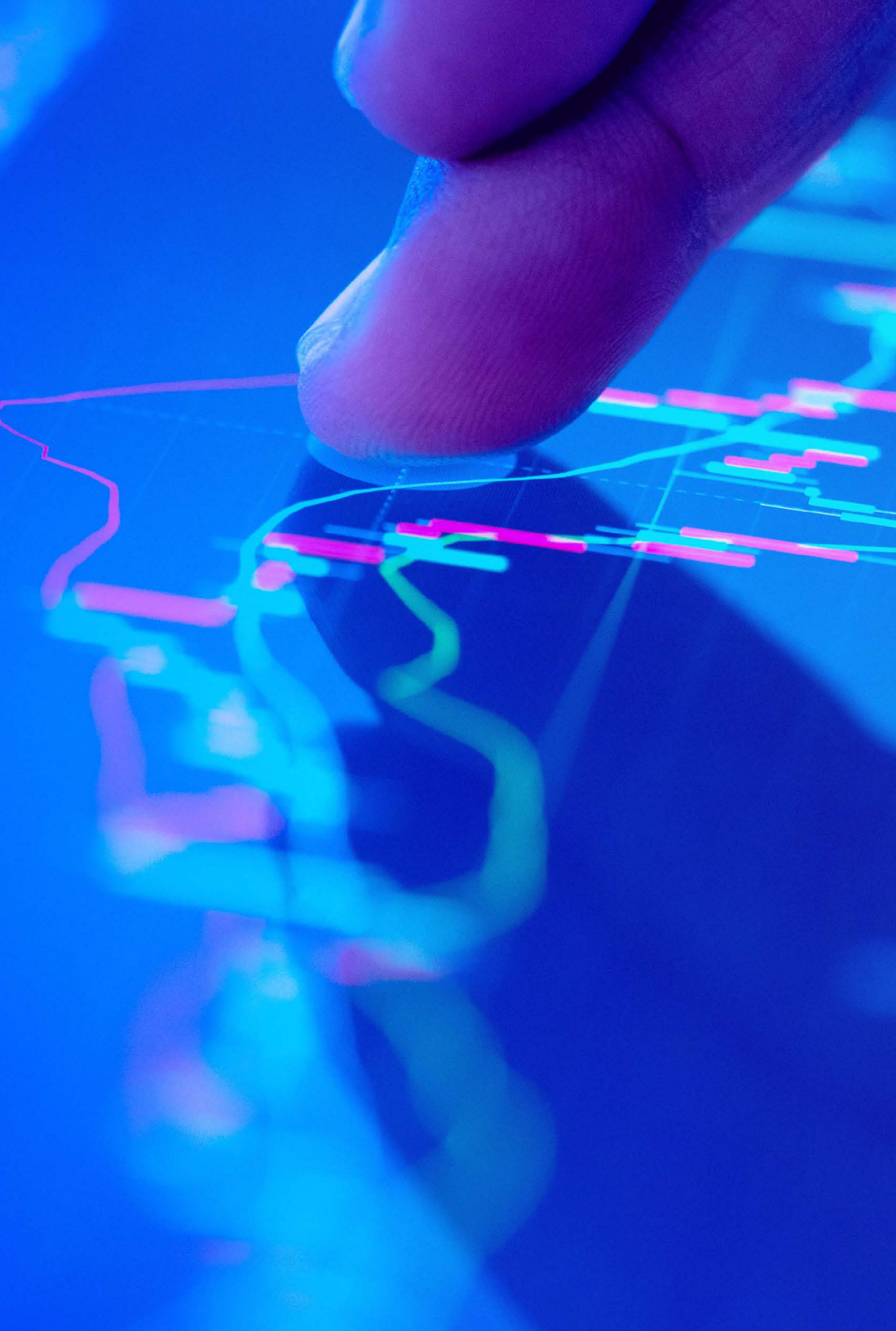
While we recognize that each institution has its unique challenges and opportunities, we nevertheless see these issues as those most likely to impact the people and the operations at all banks:

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**Peter Torrente**,  
National Sector  
Leader, KPMG  
Banking & Capital  
Markets

[ptorrente@kpmg.com](mailto:ptorrente@kpmg.com)



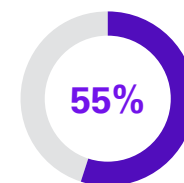
# Profitability

## Revenue and growth: The engine is tuned up

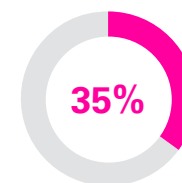
Banks fared extraordinarily well through the pandemic years of 2020 and 2021. Early fears of credit performance deteriorating proved to be incorrect, digital engagement and behaviors received a pandemic boost as consumers accelerated their transition away from cash and branches, and many banks earned a “trust dividend” as they offered forbearance terms and participated in the distribution of government stimulus and relief payments and loans.

Heading into 2022, there’s cause for continued optimism: loan growth has emerged in recent quarters, forecast rate hikes should lift net interest margin (NIM) from recent lows, and credit quality remains strong. Against this backdrop, the KPMG 2021 Chief Executive Officer (CEO) Survey revealed that, over the next three years, a majority of CEOs at U.S. banks expect earnings growth of as much as 2.5 percent per year, and a third said they expected even better earnings growth—as much as 5 percent. Almost 90 percent said they have a positive outlook on the overall national economy.

### Growth expectations over next three years



of the CEOs are expecting their company’s earnings to grow by as much as 2.5% annually.



are expecting earnings growth up to as much as 5%.

# Profitability

But near-term optimism, while welcome, comes alongside significant questions and challenges. Growth in total banking sector revenue, after consistently outpacing GDP growth during the decades-long economic period that began after WWII, dramatically slowed during the Great Recession of 2009–2010—and has not recovered. Revenue growth since 2010 has hovered around or slightly below 2 percent; CEOs' expectations for 2.5 percent growth going forward are an improvement, but remain a far cry from the 7-plus percent rates of the 1990s and 2000s, let alone the prior decades of double-digit growth. And while higher interest rates should have a positive impact on NIM, the accelerating economy will bring new challenges—higher rates are likely to reduce the stickiness of core deposits, and inflationary pressure on wages will challenge recent efficiency improvements.

A core challenge for banks is that the banking market is not monolithic. Different markets, at the state, county, and MSA level, offer very different prospects for growth and profitability. Similarly, different products and services are at very different stages of maturity; for example, traditional “plain vanilla” spread-financing products may offer modest prospects for growth, while innovative new payments and treasury-management services, Banking-as-a-Service value propositions, and emerging financing products (venture finance, clean energy finance, etc.) may enjoy high margins and/or very rapid growth.

So, are recent growth challenges cyclical, driven by persistent (but ultimately unsustainable) low interest rates and regulatory pressure on fees? Is the industry on the precipice of a new boom in growth and returns, driven by digital and fintech innovation, increased demand for corporate and infrastructure financing, and the emergence of new product and service sets in payments and treasury management? Or are recent challenges more secular in nature—the mark of a maturing industry with fragmented competitors and commoditized products and an imperative to reduce cost, simplify, reduce risk profile, and emphasize capital return to shareholders?

There won't be a single answer for the industry (or even for a single bank). Winning institutions will craft strategies based on a foundational understanding of their capabilities and infrastructure, the markets they participate in, and the customer segments they serve. Successful execution will require managing complex business portfolios with a balance of innovation growth “bets” and more stable, utility-like activities.

## Taking action in 2022



**Innovate**



**Maximize efficiency**



**Optimize business portfolios and strategies**



**Future-proof**



Banks looking to grow market share and generate above-average revenue and earnings growth will not succeed by offering the same products and services to the same customers, through the same channels, supported by the same infrastructure. The “innovation bar”—the level of new thinking, value propositions, and delivery mechanisms required to access market growth—has continued to rise, and for all but the largest institutions now outstrips internal capacities for technology and alternative business model development.

The consequence: An imperative to partner with and invest in complex fintech ecosystems as a means of “insourcing” innovation and expanding potential market reach. Connecting with fintechs at scale is itself a significant operational challenge and requires rethinking (and reinvesting in) traditional business development functions. Potential initiatives include:

- The creation of in-house fintech accelerators and investment funds
- The creation of innovation hubs and design centers for rapid prototyping of new product and service offers
- Significant investment in more robust and more real-time, third-party risk management and due diligence capabilities
- Investment in an application programming interface infrastructure to enable more rapid, open architecture partnership models.

**To learn more about profitability, contact:**



**Dylan Roberts**  
Principal, Advisory  
E: [dylanroberts@kpmg.com](mailto:dylanroberts@kpmg.com)



**Jack Whitt**  
Principal, Advisory  
E: [jackwhitt@kpmg.com](mailto:jackwhitt@kpmg.com)

## Taking action in 2022



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Operating at lower cost is a clear means of improving earnings and outperforming competitors. Investors understand this and value efficiency—but are also leery of cost-cutting efforts that risk being “yo-yo diets” with unsustainable impacts. The implication for banks is to focus on creating business models with fundamentally and intrinsically higher levels of efficiency rather than simply cost cutting to higher earnings.

To learn more about profitability, contact:



**Dylan Roberts**  
Principal, Advisory  
E: [dylanroberts@kpmg.com](mailto:dylanroberts@kpmg.com)



**Jack Whitt**  
Principal, Advisory  
E: [jackwhitt@kpmg.com](mailto:jackwhitt@kpmg.com)

## Taking action in 2022



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It's all about taking a dispassionate look at whether a bank's current business lines actually collectively can grow the business, put limited resources to the best use, improve margins, and avoid wasting time and money. The issue is predicated on the idea that it is likely that many banks are spending too much time on lines that don't match their strengths.

Whether it is inertia, resistance to change, fear of failure, or any of the myriad reasons banks cite as reasons for their slow pace of change today, the reality is this: Many banks are behind the curve on the transition to a leaner, strategically focused business.

Bank management will need to understand—in detail—which lines are optimal to their business and operating models. They need to test their assumptions used to form the foundation of their decisions.

We believe that most bank business portfolios should contain a mix of higher-risk innovation "bets" designed to drive long-term growth and more stable and predictable established businesses. Portfolios must be actively constructed and managed to maximize the probability of meeting earnings and profitability targets over time, while accounting for the volatility, capital consumption, risk, and earnings generation characteristics of individual activities.

We find that all too often, businesses that want to take a hard look at shifting strategic focus are searching for a fail-safe formula. In our view, such formulas do not exist. Like everything else, success is in the details.

To learn more about profitability, contact:



**Dylan Roberts**  
Principal, Advisory  
E: [dylanroberts@kpmg.com](mailto:dylanroberts@kpmg.com)



**Jack Whitt**  
Principal, Advisory  
E: [jackwhitt@kpmg.com](mailto:jackwhitt@kpmg.com)

## Taking action in 2022



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Maximize efficiency



Optimize business portfolios and strategies



Future-proof



Banks subject to Dodd-Frank Act and Comprehensive Capital Analysis Review stress-testing requirements have spent a tremendous amount of time and money over the past decade building granular and robust scenario analysis capabilities. These capabilities, built for regulatory response purposes, must now become an integral part of the business planning and business portfolio management process. As 2022 gets underway, we face uncertainty on multiple dimensions: public health, international trade and geo-political environment, domestic political environment, macroeconomic growth and inflation, and so on. Whatever profitability levers a bank plans to pull in 2022, it should do so armed with an understanding of how management actions will impact profitability and growth both in a “base case” future and in alternative futures that might arise from unexpected but still-possible and plausible developments.

To learn more about profitability, contact:



**Dylan Roberts**  
Principal, Advisory  
E: [dylanroberts@kpmg.com](mailto:dylanroberts@kpmg.com)



**Jack Whitt**  
Principal, Advisory  
E: [jackwhitt@kpmg.com](mailto:jackwhitt@kpmg.com)





# Digital transformation

## Accelerate digitization — Survive and thrive

Digital-first banking requires a surgical approach to modernizing everything—from business and operating models to the core banking platforms. There can be no let-up in banks' investment for the future through modernization of their core platforms and making their infrastructure ready for the furious pace of change and competition.

Such a strategy is fundamental to a digital-first, customer-centric bank that leverages an ecosystem that enables agility and accelerated innovation. The reality is that the marketplace is a competitive chess board. Any company—not just banks—with the technical ability to grow, manage, and move consumer money is competing for market share. Nonbanks and fintechs are aggressively going after the traditional banking customer—at a time when there is zero cost to switching.

Many of these new competitors are not weighed down with the same business and technical debt as banks. It is no wonder that consumers are actively engaging with businesses that are furthest ahead in their digital journey. Banks have a great opportunity to respond to this challenge by modernizing their core infrastructure, enabling them to thrive as a future-ready, customer-centric bank.

## Taking action in 2022



### Fortify the foundation

Modernizing an entire bank may seem overwhelming. However, banks that begin with the foundational elements can realize the greatest return on investment.

Core modernization is a method to unlock product innovation, speed-to-delivery processes, real-time processing, and other important aspects of customer needs.

But the challenges ahead involve much more than just updating technology. The tasks to be met head on impact the entire enterprise—from strategy, to people, to culture. They include everything from the business model down to the operating model—efficiently uniting front, middle, and back office to deliver consistent experiences.



### Build an integrated ecosystem

The key architectural principle of a technology ecosystem that enables agility is “composability,” which means each service component functions as automatically as possible so that it can function on its own with a given input. But, the architecture of a technical ecosystem is only one part of being nimble—and it’s the easier part. The more difficult challenge is having a horizontally integrated team, rather than a daisy chain of work done in a series, such as design to development, to testing, to security, to operations.



### Exceed customer expectations at every turn

All banks are facing massive, multiple core modernization and digital transformation efforts, but those that make every business decision with the customer in mind will thrive. Arguably, those that have embraced the digital agenda will be able to meet rising client demands, delivering a positive customer experience across multichannel products and services. They will know their customers’ pain points—and how to solve them. They will have a deeper understanding of where, when, and how a customer wants to interact with their bank.

**To learn more about digital transformation, contact:**



**Celeste Diana**  
Principal, Advisory  
E: [cdiana@KPMG.com](mailto:cdiana@KPMG.com)

# Cost optimization

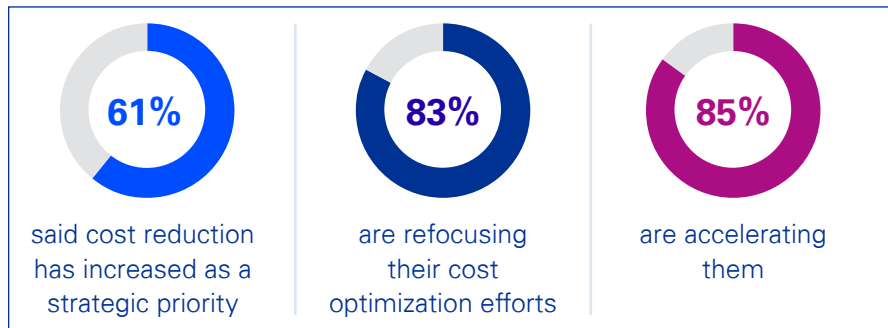
## A driver of profitability and efficiency

Even as bank executives intensify cost transformation programs, our recent research reveals many banks are struggling to make significant headway in digitizing key functions, linking process metrics to key outcomes, and eliminating non-value-add activities.

A recent KPMG survey<sup>1</sup> of banks identifies several obstacles in making significant headway:

- The cost of the initiatives and the time and stamina needed
- Competing management agendas
- Management turnover, which impedes multiyear programs
- Targeting the right areas to maximize efficiencies.

Even so, the bank executives we polled said they are doubling down on their cost efforts.



<sup>1</sup> "The New Cost Imperatives in Banking: Gaining Better Efficiencies," KPMG International, 2021



# Cost optimization

## Taking action in 2022

### Set a focused cost agenda



Concentrate efforts initially on a few key areas rather than on multiple small initiatives. Approach them through the lenses of strategy, simplicity, and engineering. Which levers a bank prioritizes, and when, will depend on current performance against benchmarks and targets, the investment in cost reduction, speed, and potential risks associated with each lever pulled.

### Rethink the bank's target operating model



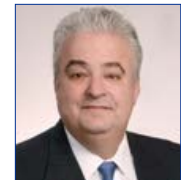
A target of 10 percent of cost reduction could be considered aggressive in one area of a bank (e.g., loan application processing), while a 20 percent optimization may be considered conservative in another area of the same bank (e.g., systems licensing and servicing related to a large book of legacy products that are no longer being sold). An important principle is that target operating models should seek to drive increased simplicity.

### Recognize the importance of cost culture and enablers



Our research found the most important "soft" enablers are seen to be a strong cost culture, the ability to commit time and resources long-term, executive accountability, and cost-reduction key performance indicators. However, our CEO survey showed that only 58 percent of banks rated themselves highly on having a strong cost culture. The most important attributes to achieve sustainable efficiency include committed leadership, culture, and accountability.

To learn more about cost optimization, contact:



**Mark Ricci**  
Principal, Advisory  
E: [markricci@KPMG.com](mailto:markricci@KPMG.com)



# M&A

## Core to creating new capabilities

While scale and efficiency needs are driving bank mergers and acquisitions (M&A), especially as institutions focus on acquiring new technology capabilities and entering new markets, we expect the pace to be somewhat constrained—at least for another few months.

Though there is general agreement that alliances with fintechs and mergers of equals may benefit most customers, the possibility of stricter regulations from the current administration may slow down the number—although not the value—of deals in the near term. This is due in large part to the sweeping executive order, issued in July, that directed federal regulators to strengthen oversight of bank mergers.

It is the improvement of technological capabilities and added scale that appear to be the major fuel of growth, as so many traditional institutions remain in a swift race with nontraditional providers of financial services.

Our view is that competition for increasingly tech-savvy customers—who wholly embraced digital behaviors as the pandemic's impact intensified—is only beginning. The value of collaboration with fintechs has never been greater—and, in our view, will intensify. The rewards accruing from that strategy can be significant, but so are the risks.

The foundation for superior M&A dealmaking has always been dogged due diligence efforts. Fit, culture, and systems integration are key to improving the chances of success. There also are issues associated with understanding the extent of outsourcing processes by a target, and there are heightened accounting issues, such as the purchase accounting for credit deteriorated loans.

More than ever, it seems, success requires judgment about sophisticated diligence and meticulous execution.

## Taking action in 2022



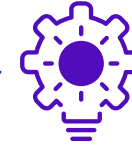
### Build revenue synergies into the deal

Deals are competitive—especially for fintechs. Banks will have to pay a premium for great technology. To justify paying a premium to win the deal, you will need to build revenue synergies into the deal. Make sure your business leaders work to quantify these estimates in detail and build the achievement of these synergies into their incentives postdeal. Connecting integration planning and execution with diligence findings is paramount to achieving synergy targets without costly delays.



### Be prepared

Deals are different this cycle than the last. Flawless execution is required to achieve synergies, so make sure you have detailed plans as well as the best athletes running the plays. In today's environment, prepare for potentially longer approval processes and help ensure teams are prepared to execute integration plans swiftly to avoid costly missteps.



### Be proactive on culture

We're in the middle of the "Great Resignation," so proactively addressing and managing culture and employee engagement is essential. Get your teams excited and engaged with the change or they will quickly leave.

To learn more about M&A, contact:



**Timothy Johnson**  
Principal, Advisory  
E: [timothyjohnson1@KPMG.com](mailto:timothyjohnson1@KPMG.com)



**Jack Whitt**  
Principal, Advisory  
E: [jackwhitt@Kpmg.com](mailto:jackwhitt@Kpmg.com)

# Regulation

## Avoiding the domino risk effect

As bank executives manage their institutions in 2022, they are facing heightened levels of regulatory supervision and enforcement as risks become more interconnected, regulatory “perimeters” continue to expand, and regulatory expectations rapidly increase.

Against that backdrop, banks will need to be especially cognizant of the broadening regulatory focus and prepare accordingly.

KPMG Regulatory Insights has published a synopsis—**“Ten Key Regulatory Challenges of 2022”**—that outlines specific issues we expect to be front-and-center for the financial services industry in 2022.

The 10 challenges are placed into three groups. Click each box for the list of challenges:

The “Rapid Change” category includes issues relating to:

- Fairness and inclusion
- Climate and sustainability
- Crypto and digital assets
- Platforms and conduct.

The “Maintain Focus” category includes:

- Cyber and data
- Fraud and financial crime
- Valuation vulnerabilities.

The “Mitigate Risk” category includes:

- Third party and cloud
- Tech and resilience
- Risk “complacency”



## Taking action in 2022

### Prepare for expanded oversight

Higher levels of supervision and enforcement are expected across the 10 challenge areas. Technology developments, evolving markets, public awareness, and economic changes are shifting stakeholder expectations (e.g., regulators, investors, and consumers), giving rise to new risks within the current regulatory framework. Key areas that will inexorably broaden include customer service, privacy and protection, fairness, sustainability, and other important considerations.

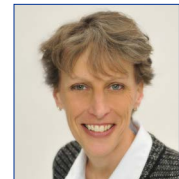
### Maintain regulatory vigilance

Frequent communication and in-depth education and training at all levels of the company can be key pillars that support a vigilant posture to keep pace with today's expanded regulatory risk expectations. Taking these steps may help a bank better detect, prevent, and mitigate the full spectrum of risks (including operational, credit, strategic, market, compliance/legal, and reputational).

### Guard against overconfidence

Regulators view risk complacency by financial services companies as a potential threat to stakeholder trust as well as safety and soundness. Companies must guard against overconfidence—particularly at times of business, M&A, and innovation growth—by raising the stature of and investment in risk, compliance, information security, and audit to levels comparable to other strategic functions.

To learn more about regulation, contact:



**Amy Matsuo**  
Principal, Advisory  
E: [amatsuo@kpmg.com](mailto:amatsuo@kpmg.com)





# ESG

## A significant opportunity for banks

Sustainable, socially responsible behavior is already expected of banks by an array of stakeholders—customers, regulators, industry analysts, and credit-ratings agencies who demand measurable assurance that banks take ESG factors into account when deciding to make loans, offer investment products, and conduct day-to-day business.

However, standardized ESG reporting in 2022 will, in all likelihood, continue to be mostly voluntary and limited. But that doesn't mean that banks shouldn't provide specific details when stating how they plan to meet their ESG goals—and how the goals will be measured and reported.

Banks' ESG reports too often contain only high-level statements about a commitment to a better environment, social justice, and robust governance standards. While these reports state bold ambitions to provide stakeholders with ESG information, it appears few of these statements or reports have been assured by an independent third party. We encourage banks to have their ESG reports undergo an assurance review and to provide information about interim ESG targets and other information supporting its commitments. Banks should be aware that it is likely that such information may shortly be expected by regulators.

Stakeholders want clarity and details about banks' activities regarding how they are managing existing portfolio companies, for example, as it relates to those companies' carbon footprints and plans to better manage those demands. Further, stakeholders may want more concise information on such issues as a bank's plans for investments in renewable energy businesses or nuclear power businesses. It is important to note that increased shareholder value could be tied to ESG disclosures and performance.

## Taking action in 2022

John Cotes, head of the Securities and Exchange Commission’s (SEC) Division of Corporate Finance, said, “SEC action on ESG is overdue ... nobody else is waiting. The rest of the world is moving forward (on stiffer ESG regulation) pretty rapidly.”<sup>2</sup> Current expectations are that the SEC will propose rules related to ESG disclosure requirements in the early months of 2022.<sup>3</sup>

### Reporting readiness



As regulators, such as the SEC, increasingly indicate interest in creating mandatory climate risk disclosure rules, we would expect that banks would want to review their readiness to meet such rules.

Banks will want to understand whether they have the capabilities needed to provide measurable data. In order to understand if they have such capabilities, they’ll need to examine the sophistication of the controls and procedures they would need in order to meet those requirements.

Better reporting capabilities also may produce ancillary benefits, such as improved investment returns and operational performance, and it also could result in having comparatively lower cost of capital than peers with lesser ESG ratings. It also may improve customer and regulatory relationships. By addressing stakeholder concerns around ESG, management teams also may increase their chances to improve shareholders’ returns.

### Getting up to speed on financed emissions



### Carbon literacy



To learn more about ESG, contact:



**Steve Arnold**  
Principal, Advisory  
E: [stevenarnold@kpmg.com](mailto:stevenarnold@kpmg.com)

<sup>2</sup> “SEC to Move ‘Promptly’ on ESG Rulemaking in 2021,” Bloomberg Law News, April 30, 2021  
<sup>3</sup> “The ESG Regulation Picture for 2022. Five Key Questions for Business,” The Wall Street Journal, January 6, 2022

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### Reporting readiness



### Getting up to speed on financed emissions



### Carbon literacy



Now that a small percentage of banks have begun to follow the suggestions outlined in the Partnership for Carbon Accounting Financials, we suggest more banks follow suit. A primary goal of that organization is to encourage banks to improve their education on how to best measure and disclose the emissions generated by the businesses they lend to and invest in.

Banks seeking to meet proposed rules on greenhouse gas emission targets relating to their own institution and the institutions with which they do business can follow information outlined in so-called “scope 3 guidelines.” Adhering to those guidelines can provide banks with information to assess net zero emissions, including reduction goals. Scope 3 disclosures also are intended to help investors understand the extent to which a bank is invested in “high-emissions industries,” which may run counter to policies and technologies focused on a low-carbon economy.

**To learn more about ESG, contact:**



**Steve Arnold**  
Principal, Advisory  
E: [stevenarnold@kpmg.com](mailto:stevenarnold@kpmg.com)

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### Reporting readiness



### Getting up to speed on financed emissions



### Carbon literacy



CEOs and CFOs should be prepared to discuss details about how their ESG strategy is actionable. They should be able to provide stakeholders with clear and detailed information about how the bank monitors, measures, and reports on climate risk/carbon emissions. Management should examine whether their organization is capable of providing such information—and, if the bank is not yet capable, management should start now on creating a program to provide such information.

Continued literacy efforts to benefit clients, investors, employees, and other stakeholders about the bank’s current actions and especially its carbon-emission-mitigation efforts are critical. In addition to promoting literacy specifically about carbon emission, there also are considerable benefits associated with efforts to promote overall diversity, equity, and inclusion.

<sup>2</sup> “SEC to Move ‘Promptly’ on ESG Rulemaking in 2021,” Bloomberg Law News, April 30, 2021

<sup>3</sup> “The ESG Regulation Picture for 2022. Five Key Questions for Business,” The Wall Street Journal, January 6, 2022

To learn more about ESG, contact:

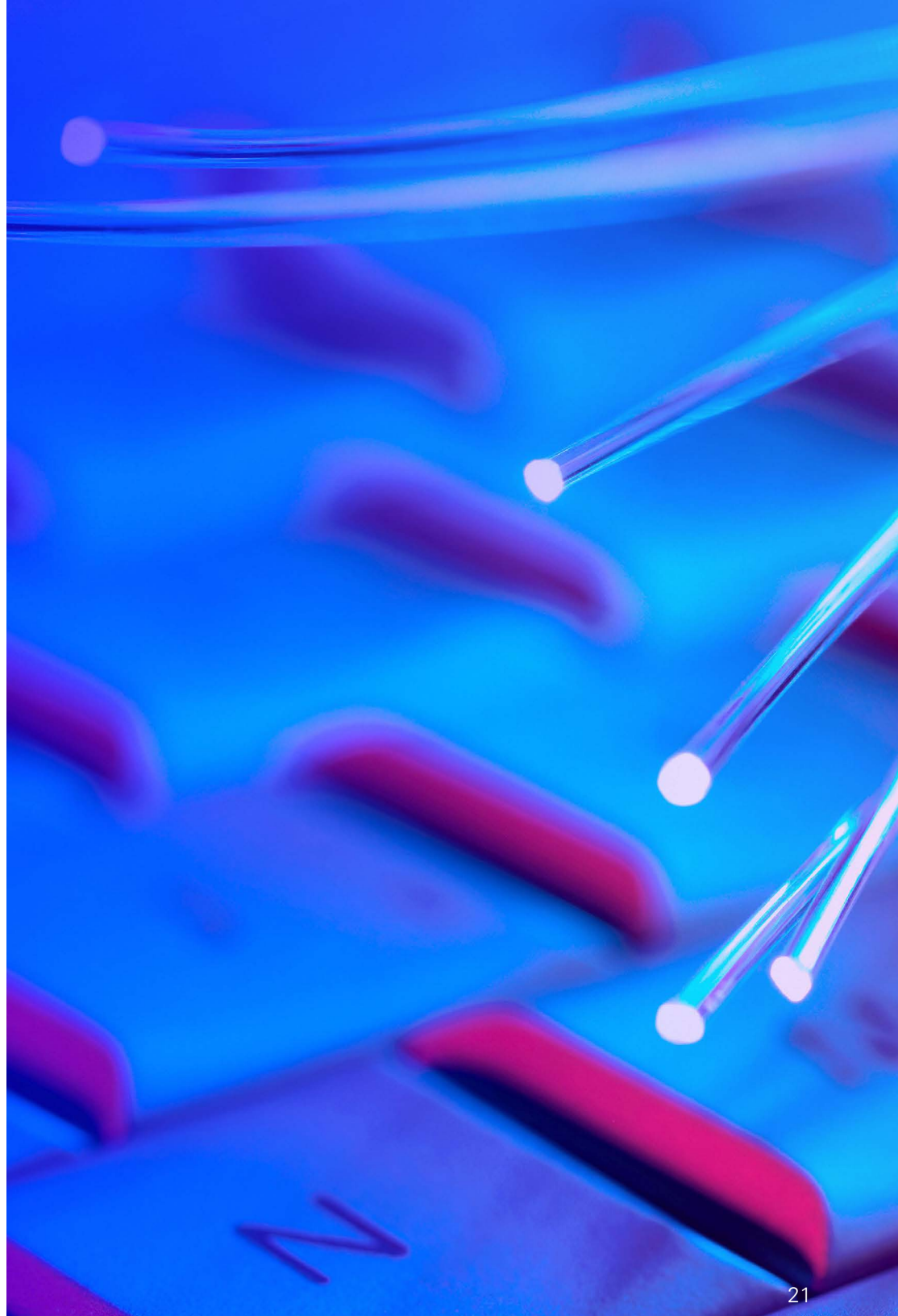


**Steve Arnold**  
Principal, Advisory  
E: [stevenarnold@kpmg.com](mailto:stevenarnold@kpmg.com)

# Cyber

## A persistent and sophisticated threat

Regulators have called cyber risk the foremost risk to financial stability—and the administration has called it a persistent and increasingly sophisticated threat that weighs heavily on governments and financial services companies alike. Given the highly interconnected nature of the banking sector and its dependencies on critical third-party service providers, all participants in the financial system must implement risk mitigation and resilience initiatives relative to both frequency and impact of cyber threats. Current or emerging threats include malware (e.g., ransomware), supply chain risk, and sophisticated distributed denial of service attacks.



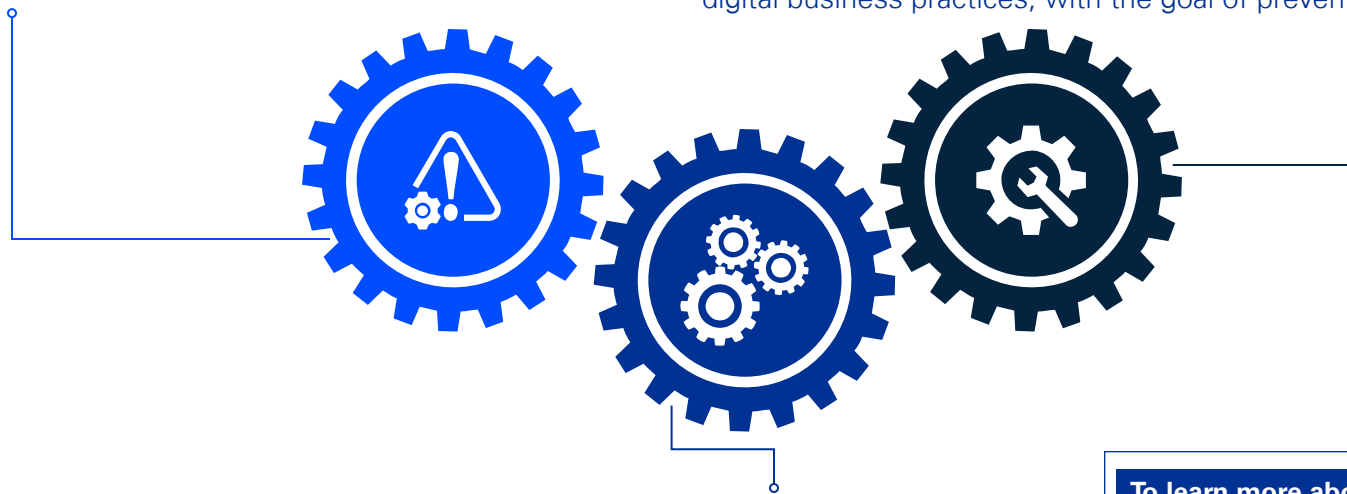
## Taking action in 2022

### **Evolve your customer and enterprise identity and access management programs to help ensure appropriate preventions against latest account takeover threats.**

Increases in data transfer sophistication have widened the array of entry points to a bank's assets and consumer data, expanding the number of attack vectors for malicious actors. Weak access management and authentication controls provide opportunity for cyber attackers to leverage compromised credentials to access the same resources and data that legitimate users can.

### **Identify, manage, and protect the bank's information assets (throughout the data management lifecycle) by embedding "privacy by design" and automating data protection.**

Banks are collecting increasing amounts of customer data to feed predictive analytics, personalize marketing campaigns, and introduce/improve products and services. Consumers, for the most part, are increasingly concerned about how their information is being collected, used, and protected. "Privacy by design" principles set a baseline for robust data protection by embedding privacy into the design, operation, and management of new applications, including information technology systems, artificial intelligence platforms, and digital business practices, with the goal of preventing privacy vulnerabilities.



### **Use orchestration and automation to augment limited cybersecurity resources and improve your speed to respond.**

Banks need to continue to enhance their cybersecurity capabilities. Security orchestration, automation, and response (SOAR) tools combine to allow companies to collect data about security threats from multiple sources, initiate a response with limited human interaction, and coordinate postincident reporting and information sharing. Benefits include faster detection and reaction, broader threat context, integrated data management safeguards, and lower costs.

**To learn more about cyber, contact:**



**Matthew P. Miller**  
Principal, Advisory  
E: [matthewpmiller@kpmg.com](mailto:matthewpmiller@kpmg.com)



# Digital assets

## No longer a fringe element

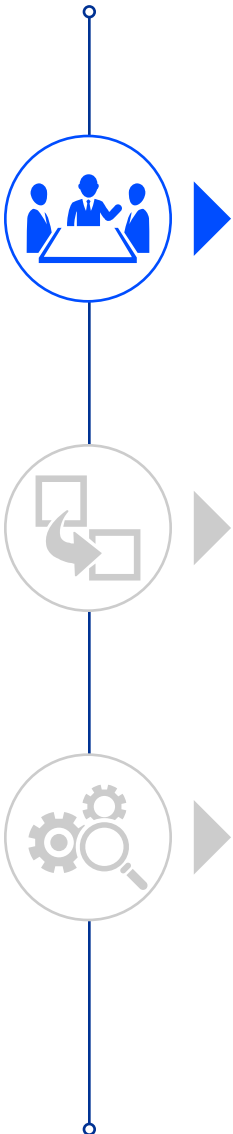
With crypto currencies and other digital assets becoming attractive among retail and business customers as an investment, these instruments no longer represent a fringe element in the industry.

Banks that stay on the sidelines may be missing an important moment—so long as they are prudent when entering the marketplace.

Though they are complex and mystifying to many, cryptoassets represent \$2 trillion in market value with roughly 200 million users.<sup>4</sup> That said, bankers would be wise if they view them through the lens of trust, transparency, and auditability.

<sup>4</sup> "Bank of America Begins Research on Digital Assets," Reuters, October 5, 2021

## Taking action in 2022



### Understand the customer need

Knowing which digital assets to offer customers is critical. Making the right decisions in that regard means weighing the risks and rewards of providing such products and services directly or, if it makes more sense, in partnership with another organization.

At the same time, among the questions to consider before entering the deep waters of digital assets is the extent to which a bank must modernize its custody models, due to the finality of transactions settled on public blockchains.

It is not a stretch to suggest that most banks' traditional custody frameworks are not built for this asset class—and the time and cost to refit the models will be considerable. The work is doable; it just requires a clarity of understanding and purpose before acting.

Never forget that absolute trust is essential in order to attract and retain digital asset-based banking customers—especially institutional customers. To that end, banks must be able to clearly demonstrate that their digital assets services are reviewed, tested, and audited by regulators and public accounting/auditing firms.

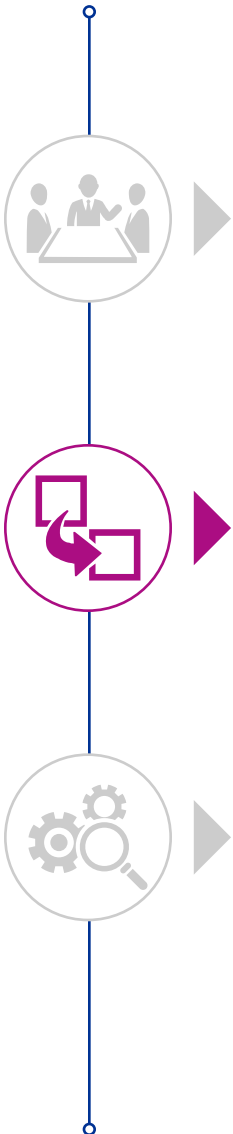
To learn more about digital assets, contact:



**Robert Sledge**  
Partner, Audit  
E: [rsledge@KPMG.com](mailto:rsledge@KPMG.com)



## Taking action in 2022



### Determine the best path forward

Knowing that the bank wants to get into the digital assets business and actually being able to safely and profitably offer them are two distinct issues.

Among the most common refrain by proponents of digital assets is that they “democratize” financial assets to a broader range of customers on a peer-to-peer network of exchange. Our question to banks is this: Do their leaders really understand what that statement means? Even if a bank can answer that question in the affirmative, it must have the knowledge required to head down the correct path toward offering this often-mystifying asset class.

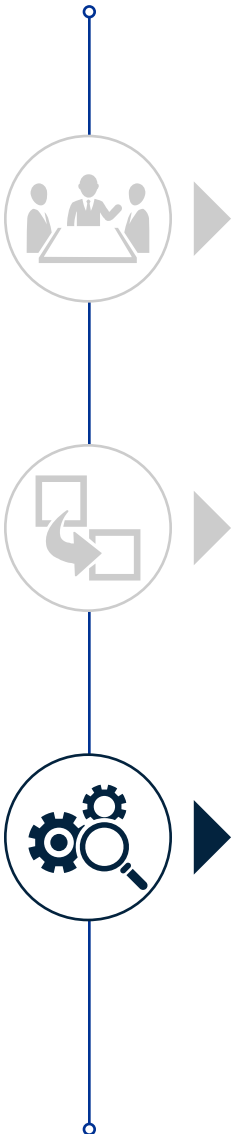
For many institutions their desire to get onboard may not yet match their capabilities in terms of risk management and clarity about these assets. More than a few organizations have jumped on the “hot, new product” only to later realize that their knowledge level was low, and their risk was higher than they anticipated.

To learn more about digital assets, contact:



**Robert Sledge**  
Partner, Audit  
E: [rsledge@KPMG.com](mailto:rsledge@KPMG.com)

## Taking action in 2022



### Research the regulations

Bank leaders should ask themselves: Do I have confidence that our institution understands current views and recent actions of our applicable regulators relating to digital assets?

Our research shows that successful adoption is largely driven by increased regulatory clarity (though we expect much more regulation to come shortly), a voracious interest among a growing sector of investors to “jump in,” and an increasing acceptance among an array of individuals and institutions of stablecoins and central bank digital currencies.<sup>5</sup>

Therefore, bank executives must be comfortable and knowledgeable about any move into digital assets—and not be reluctant to seek out highly experienced people and organizations to help guide them through the maze of digital asset products and regulation that is only getting more intricate.

Banks may also seek to partner with fintechs as a way to broaden their product offerings and gain access to relevant experience and capabilities. But partnering with new organizations requires robust operational and regulatory due diligence on behalf of the bank.

Equally as important is the notion that banks have a clear grasp on data security relating to compliance and risk-management issues. Managers and boards must have fundamental comfort on the data risk front when considering digital-asset offerings.

For a more detailed view from KPMG on banks entering the crypto world, click [here](#) for our recent report on the topic.

To learn more about digital assets, contact:



**Robert Sledge**  
Partner, Audit  
E: [rsledge@KPMG.com](mailto:rsledge@KPMG.com)

# Attract talent

## The right people, the right way

Addressing the challenge of enhancing technology capabilities of a bank's staff will require teamwork among board members and management as well as a sizable investment of time and money. Our interactions with bank boards and bank senior management teams leave no doubt that tech talent acquisition and retention are among the industry's key objectives.

Forrester issued a report<sup>6</sup> in November predicting banks will "spend lavishly on tech, talent, and fintech," as they seek growth. Not surprisingly, the competition for talent will be intense from within the financial services industry as well as from technology firms, start-ups, and other industries. "Banks are going to run into a severe shortage of the digital skills they need, and they have to compete with tech firms looking for people with the same skills."<sup>7</sup>

<sup>6</sup> "Forrester Expects Banks to Invest Aggressively, But Run Into Skills Shortages," Forrester Research, Inc., November 19, 2021

<sup>7</sup> Ibid



## Taking action in 2022

### Take the long view on compensation >

While shortages of qualified people can be attributed to an overall shortage in the workforce pool, it may also be the result of some banks being hesitant to offer the level of compensation being demanded.

Some investment banks, according to a recent published report,<sup>8</sup> are paying junior-level bankers with strong technical background “right out of college (starting salaries) in excess of \$100,000” a year.

Banks that have not already done so should determine if they are being unrealistic when making an offer. To accomplish that goal, a bank team will need to make it a priority to conduct a study of the levels of offers being made and compare them to the offer their bank has made. For some banks, they will need outside help in making an objective decision.

### Search within >

An equal priority will be the need for banks to evaluate in-house talent, looking for individuals who may be qualified to be in tech roles but are assigned elsewhere. Some organizations may be surprised at how much technology talent already exists in their organizations when they look—and ask for help.

Bank executives should ask their in-house technology personnel two questions:

- Do you know anyone else in the organization that is doing another job at the bank but can be reassigned to help with our digitization efforts?
- Would you reach out to your external network and help us recruit people who you think would be a good fit with our culture and help us reach our goals?

### Keep DEI in mind when searching the talent pool >

When attempting to fulfill the bank’s tech hiring needs, it is important to keep in mind the critical issues surrounding diversity, equity, and inclusion (DEI).

Simply put, attracting talent that reflects the demographics that make up the clients an institution serves—or hopes to serve—must be a stated priority of any bank. And, avoiding (intentionally or not) certain demographic pools simply limits an organization’s chances at filling needed positions.

There is no shortage of ways to achieve DEI goals, but making such programs work effectively requires a stated commitment to pursue those goals, and it requires a mechanism that holds people accountable to uphold such a commitment. Aside from needing to follow the relevant regulations, creating and following through on a substantive DEI program is the right thing to do from a societal perspective—and it makes good business sense.

**To learn more about how to attract talent, contact:**



**Peter Torrente,**  
National Sector Leader KPMG  
Banking & Capital Markets  
E: [ptorrente@kpmg.com](mailto:ptorrente@kpmg.com)

<sup>8</sup> “Big Banks Will Open Their Checkbooks to Lure Young Talent,” NPR.org, August 12, 2021



# Tax

## Debates rage on how much change—and when

Bank tax personnel, executive officers, and boards can expect to see a continuing evolution of legislation, regulations, and the environment in which banks operate. New laws and guidance are regularly being proposed or released, and developments in macroeconomics and geopolitics are impacting bank tax departments like never before.

Tax professionals will need to stay poised to quickly adapt and consider how new rules and developments could impact the organization. The implications go beyond traditional day-to-day operations and impact more highly developed departments, where work is being done (at home or in the office), and the permutations that grow out of M&A deals that continue to occur.

It is a time for more focus, funding, and follow through.

## Taking action in 2022



### **Increase the bank's tax department funding; recruit more specialists**

Bank teams must make certain that their own tax teams have the proper funding to meet the stepped-up regulatory and legislative demands, and the banks may need to recruit more tax specialists (or reach out to third parties for assistance) as the contour of the landscape continues to change.

There is an increasing need for tax departments to obtain significant amounts of data to comply with the complexities of the tax laws. Capturing the right data can cost significant amounts of time and money and may require collaboration with other departments. Importantly, however, accurate data reduces compliance risk and could reduce costs through gains in efficiencies. Digitalization of certain tax functions will become even more important. In some cases, these new focus areas will require banks to recruit talent that bring sophisticated technology skills into the fold.



Tax departments are also continuing to look for ways to drive value to the organization by managing the effective tax rate through tax-planning and tax-saving opportunities. These efforts are also being kept in balance with ESG initiatives taken on by banking organizations, in which the tax department can play a crucial role.

At the same time, a bank's tax department should continue to mitigate tax risk that may be managed outside of the tax department. For example, information reporting and indirect taxes may be handled by bank professionals outside of the bank, and proper communication should be occurring to ensure that professionals stay apprised of changes and developments. Legislative and regulatory changes continue to increase requirements for information reporting, such as newly enacted reporting requirements related to cryptocurrencies.



**To learn more  
about tax, contact:**



**Mark Price**  
Principal in Charge  
Washington National Tax  
E: mhprice@kpmg.com



**Elizabeth L'Hommedieu**  
Principal  
Washington National Tax  
E: elhommedieu@kpmg.com

## Taking action in 2022



### Stay current on state-by-state WFH rules

One of the newest areas in the tax realm that has gained traction involves the tax implications of a remote workforce, even as progress is being made in the ongoing health challenges gripping the world.

For example, a remote workforce has increased the state (and in some cases international) footprint in which banks operate, creating myriad tax complexities. A remote workforce is putting pressures on traditional business operating and compliance models, which may need to be adjusted as a work-from-home (WFH) arrangement appears to be lasting longer than many businesses initially expected. There is discussion that at least some of the WFH phenomenon may last quite a long time.

There may be a need for specialized education efforts, and banks should consult with specialists on the WFH topic to understand if they have specific needs as WFH has become more common.



To learn more  
about tax, contact:



**Mark Price**  
Principal in Charge  
Washington National Tax  
E: [mhprice@kpmg.com](mailto:mhprice@kpmg.com)



**Elizabeth L'Hommedieu**  
Principal  
Washington National Tax  
E: [elhommedieu@kpmg.com](mailto:elhommedieu@kpmg.com)

## Taking action in 2022



### **Bank M&A has broad tax implications, which require even more rigorous attention**

As bank M&A activity continues, we note there are specific tax areas of interest for those doing deals, even as debate continues about possible further limitation of mergers of banks of a certain size.

Nevertheless, M&As provide excellent opportunities for banks to step back and strategically focus on their target operating models. While bank tax departments continue to do more with less, and seek efficiencies, they also are rethinking traditional processes to better utilize new technologies and focus resources on core competencies that add value to the business. Improved processes and technology solutions help drive efficiency gains and cost savings in addition to lowering risk.

A related element in banking may also need attention when a deal is pending, as well as in day-to-day business: The cessation of the London Inter-Bank Offered Rate (LIBOR) continues to be a key focus area for financial institutions and requires keen attention from bank tax departments as improper preparation could lead to traps for the unwary. Bank tax departments must be engaged in conversations that the broader organization is having about the transition from LIBOR and must know the tax implications of the various routes that institutions are considering.



To learn more  
about tax, contact:



**Mark Price**  
Principal in Charge  
Washington National Tax  
E: [mhprice@kpmg.com](mailto:mhprice@kpmg.com)



**Elizabeth L'Hommedieu**  
Principal  
Washington National Tax  
E: [elhommedieu@kpmg.com](mailto:elhommedieu@kpmg.com)



# Contact us

## Banking & Capital Markets Leadership Team



**Peter Torrente**  
National Sector Leader  
Banking & Capital Markets  
KPMG LLP  
E: [ptorrente@kpmg.com](mailto:ptorrente@kpmg.com)



**Alysha Horsley**  
Audit Knowledge Leader  
Banking & Capital Markets  
KPMG LLP  
E: [ahorsley@kpmg.com](mailto:ahorsley@kpmg.com)



**Elizabeth L'Hommedieu**  
Principal  
Washington National Tax  
Financial Institutions, KPMG LLP  
E: [elhommedieu@kpmg.com](mailto:elhommedieu@kpmg.com)



**Mark Price**  
Principal in Charge  
Washington National Tax  
Financial Institutions, KPMG LLP  
E: [mhprice@kpmg.com](mailto:mhprice@kpmg.com)



**Mark Twerdok**  
Advisory Services Leader  
Banking & Capital Markets  
KPMG LLP  
E: [mtwerdok@kpmg.com](mailto:mtwerdok@kpmg.com)

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