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2024 banking trends

Challenged but undaunted, trends that are likely to shape banking in 2024

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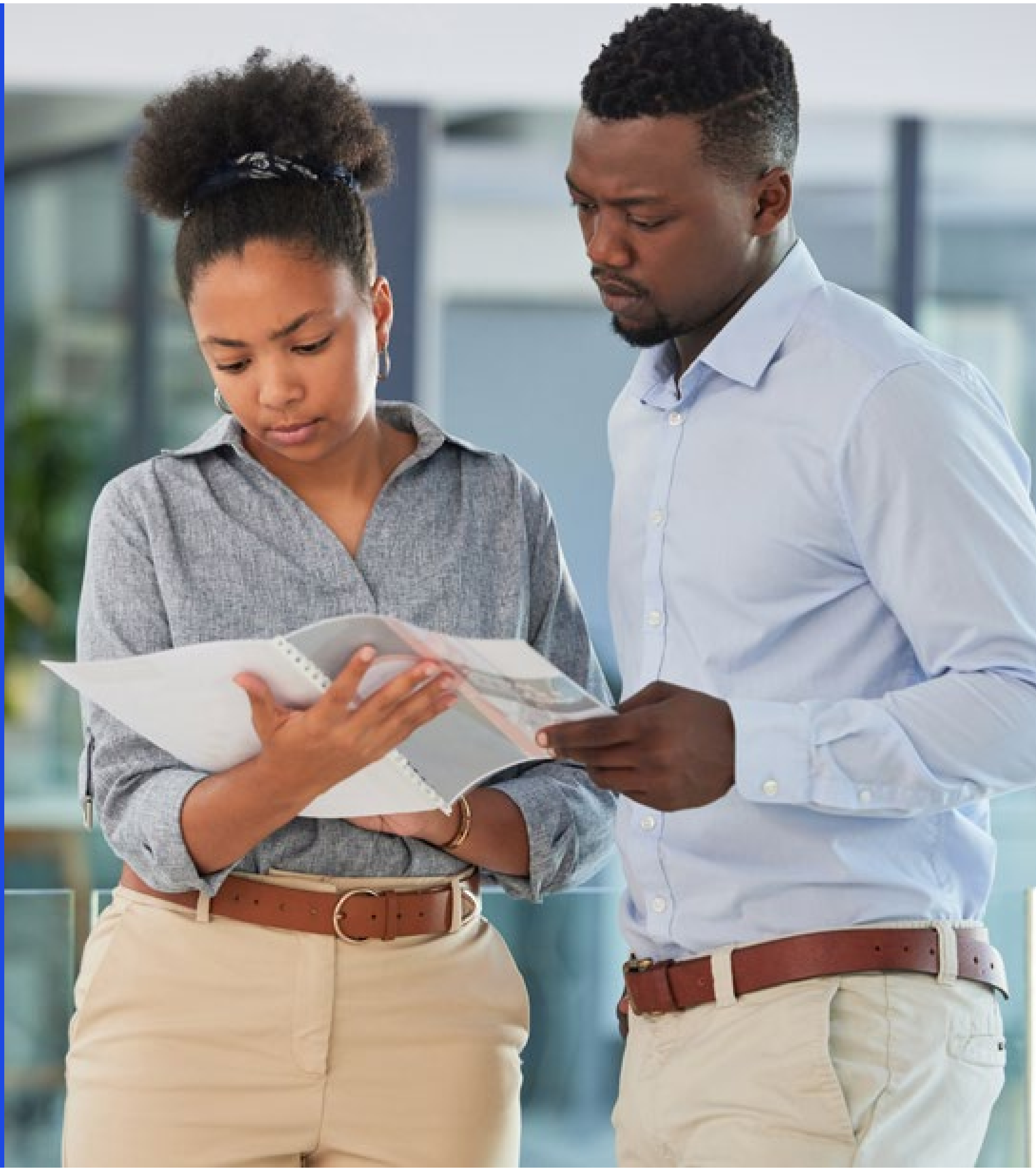
Introduction

In the age of compound volatility, the banking sector finds itself navigating a myriad of near-term challenges while keeping their eyes trained on their longer-term goals. The year ahead is shaping up to be defined by geopolitical instability, an evolving regulatory environment, and a muddled economic picture.

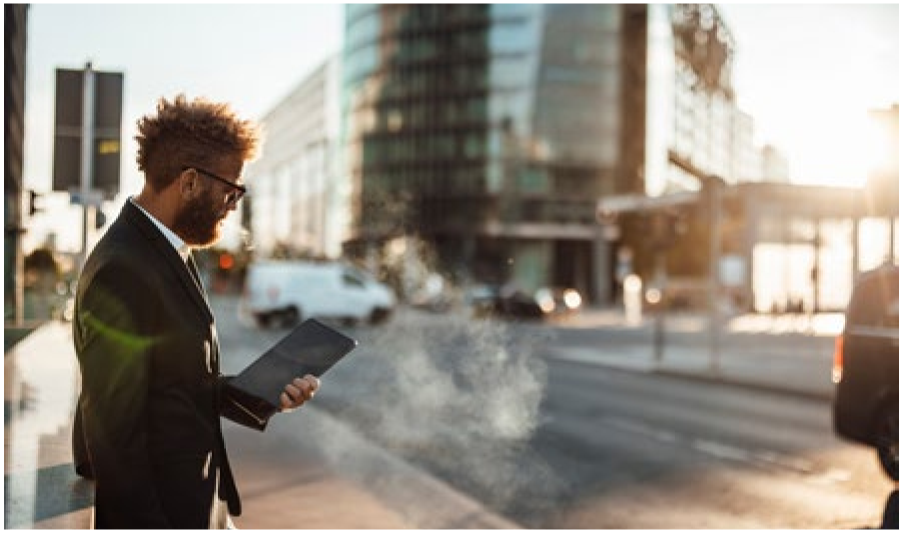
Despite the challenges, our 2024 banking trends strikes an optimistic tone as the future could bring good news. With each trend, we cover the challenge but also share reasons for positive change. As we see it, the banking industry in 2024 is challenged but undaunted with brighter days in the year ahead.

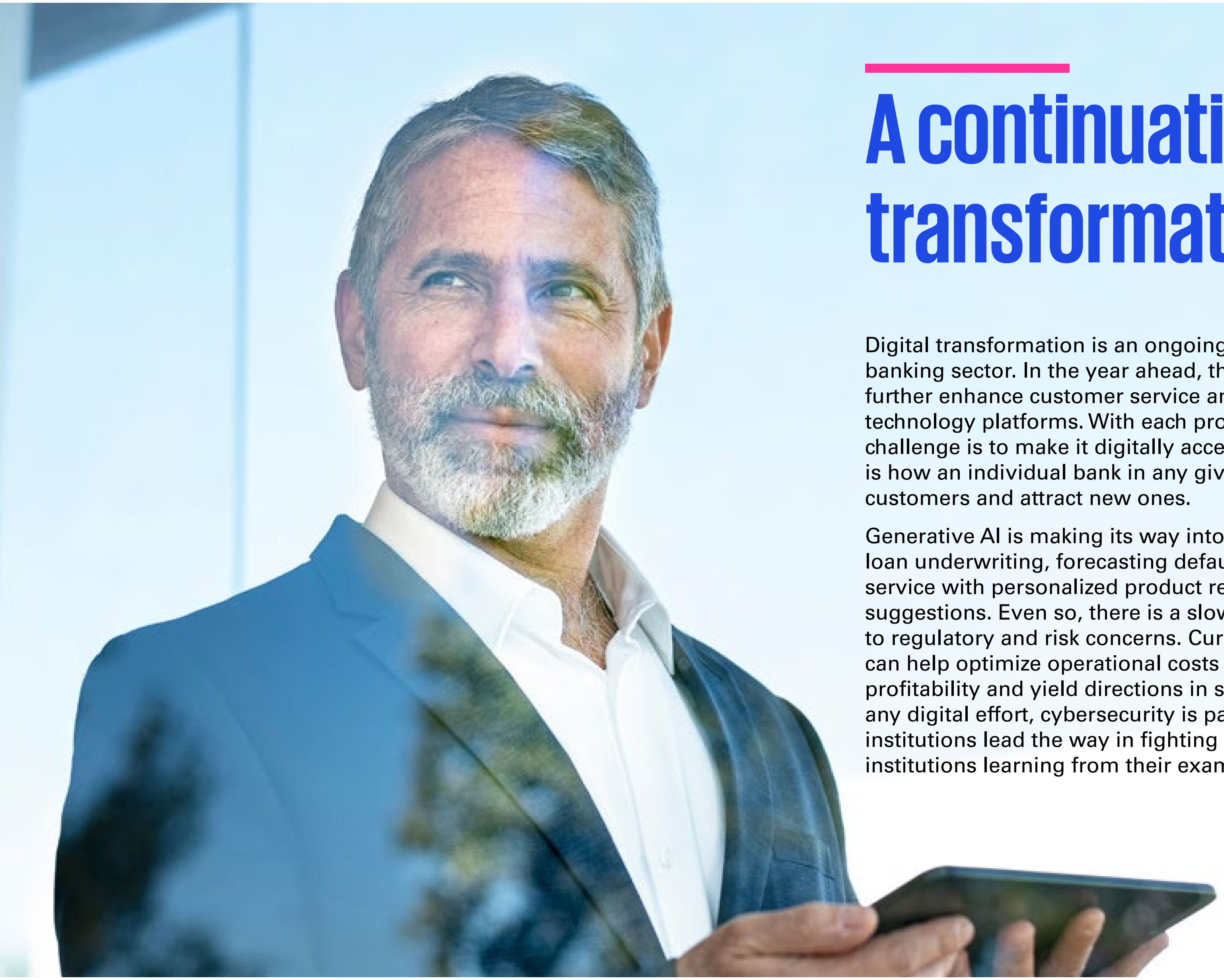


A challenging growth environment

The banking sector faces headwinds in 2024. First and foremost are macroeconomic and microeconomic challenges. There are ongoing conflicts occurring in the world that are disrupting markets. In the US, 2024 is a presidential election year that will crowd out the airwaves and dominate social networks. Around June 2024, banks will develop a wait-and-see attitude as the presidential election moves forward and there is potential for new policies and regulations.

Interest rates are high and stock prices are low—both leading to rising fund and deposit costs, which puts pressure on bank earnings. The M&A market has slowed to a trickle. Factors are present that could contribute to robust M&A activity like deposit flight, net interest margin growth, digital transformation, new products, and geographic expansion plans. Macroeconomics and microeconomics have put merger/acquisition participants in a holding pattern. If there an interest rate cut in the 1st or 2nd quarter 2024 and regulators approve, the industry may well experience a wave of M&A activity.





A continuation of digital transformation

Digital transformation is an ongoing area of investment for the banking sector. In the year ahead, this will continue as banks seek to further enhance customer service and soldier on modernizing their technology platforms. With each product update or unveiling, the challenge is to make it digitally accessible and user-friendly. Doing so is how an individual bank in any given market can retain its existing customers and attract new ones.

Generative AI is making its way into banking with use cases like loan underwriting, forecasting default risk, and equipping customer service with personalized product recommendations and cross-sell suggestions. Even so, there is a slower adoption of AI in banking due to regulatory and risk concerns. Current investments in digitalization can help optimize operational costs while mining data can drive profitability and yield directions in strategy and planning. With any digital effort, cybersecurity is part of the discussion. Larger institutions lead the way in fighting cyber-crime with smaller institutions learning from their example.

Regulatory intensity is here to stay

The financial services industry is experiencing a level of regulatory intensity rarely seen before – combining a high volume of regulatory issuances, complexity, and breadth of regulatory supervision, and the impact that these changes impose across the organization - according to the new KPMG US Ten Key Regulatory Challenges of 2024 report.

Five regulatory takeaways for banking & capital markets

01 Return to **heightened risk standards** with regulatory looking beyond checkbox compliance. For example, with environmental programs, the standard will be demonstrating sustainability.

02 These same regulators are holding **higher expectations**, so be prepared to show **strength and resiliency**.

03 A trio of risks are gaining focus, including **data, models, and "model-like" risks**. Regulators will look for how your organization manages these risks with **security, privacy, and fairness**.

04 On enforcement action, whether facing it or dealing with supervisors, score points by **proving accountability and trust** with shareholders.

05 Finally, **old regulations** may be popping up in new areas.

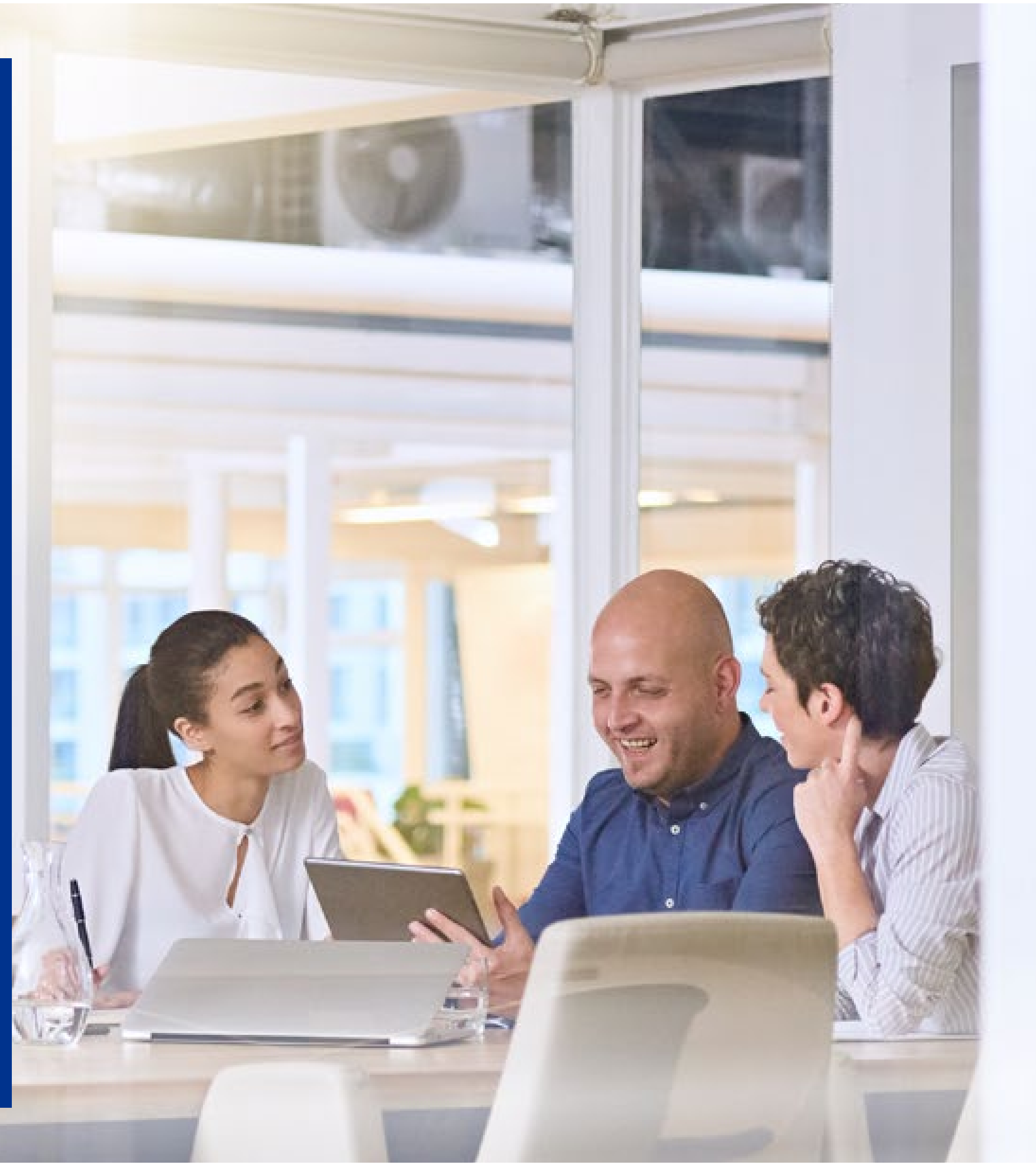
Meet and exceed workforce expectations

In recent years, bank management has been forced to reset their workforce expectations. In 2024, the banking industry will continue to be at the forefront of the return-to-office trend. In fact, many prominent institutions have already returned to the traditional five-day in office workweek. Despite the push to return to office, bank officers also acknowledge the need to balance flexibility with the advantages of in-person interactions.

Forward-thinking bank leaders understand their employees are crucial for achieving growth objectives. According to a KPMG CEO survey, 84% say their organization's business success, including growth objectives, depends on their company having a strong ethical culture. Employees like when leaders do the right thing, and they're supported in shared beliefs. Employees are also positive toward environment, social, governance (ESG), diversity, equity, and inclusion (DEI), and corporate social responsibility (CSR) programs. Banks that can integrate these programs with their missions and goals are more attractive to today's employees. For HR departments, candidates with digital skills will be in-demand to serve banks' digital transformation plans.

How KPMG can help

If you're a bank looking to modernize at the speed of business, implement conversational AI to improve customer service, map a new direction in bank compliance, or discover ideas on workforce, we can help with fresh thinking and actionable insights across audit, tax, and advisory. Only future-ready banks will thrive in 2024 and beyond.



Contact us

Peter Torrente
US Sector Leader – Banking & Capital Markets
E: ptorrente@kpmg.com

Andrew Ellis
Advisory Consulting Leader – Financial Services
E: alellis@kpmg.com

Robert Ruark
Banking & Fintech Strategy Leader
E: rruark@kpmg.com

Timothy Johnson
Transaction Services Leader
E: tejohnson@kpmg.com

Mark Twerdok
Partner Advisory – Banking & Capital Markets
E: mtwerdok@kpmg.com

Celeste Diana
Principal Corporate Strategy
E: cdiana@kpmg.com

Amy Matsuo
National Leader – US Regulatory Insights
E: amatsuo@kpmg.com

Todd Semanco
National Lead Banking Regulatory & Compliance Risk
E: tsemanco@kpmg.com

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