



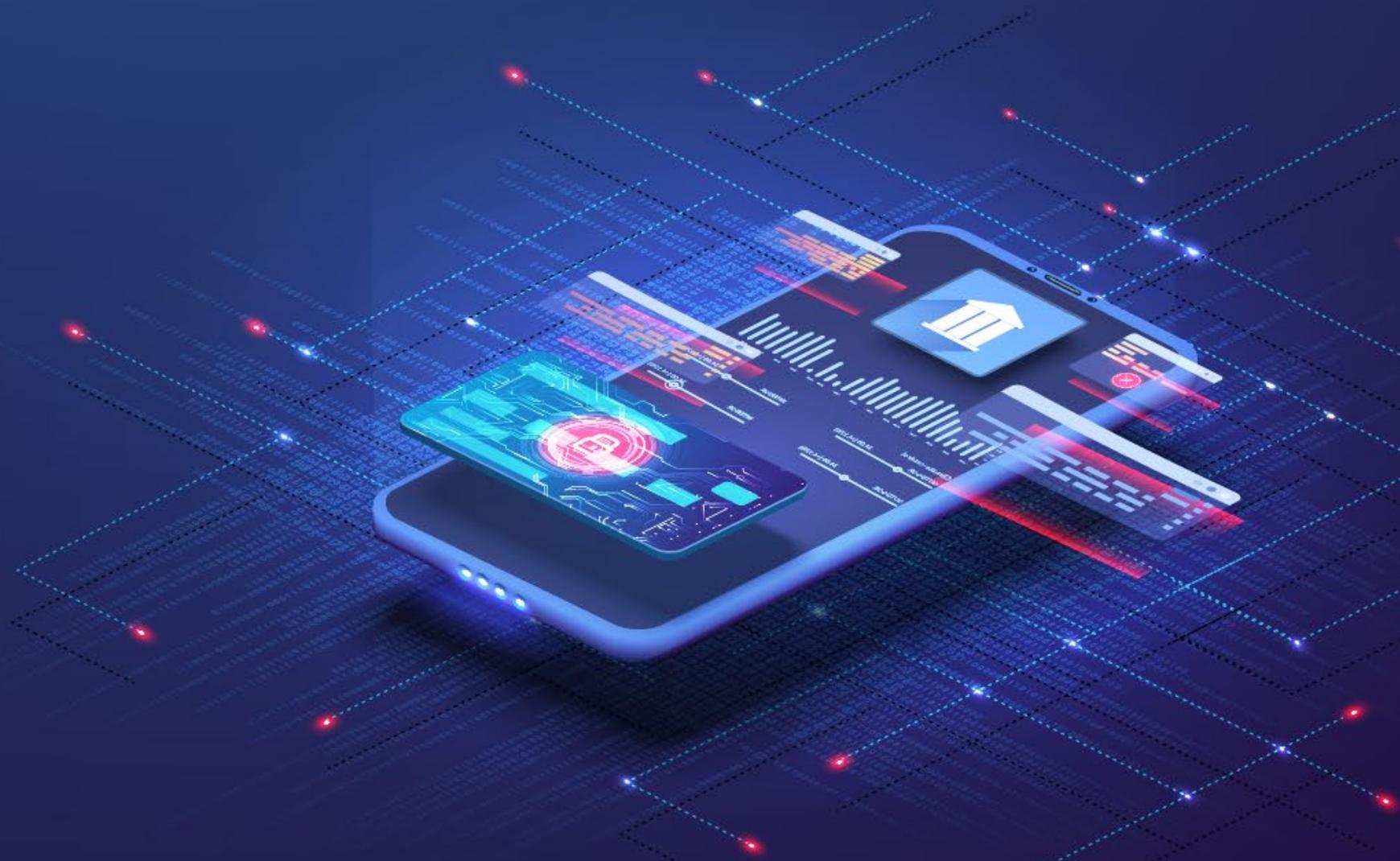
Irish Banking CEO Outlook

2022: Opportunities abound

January 2022

KPMG Ireland

<https://kpmg.ie/banking>



Contents

03

Ways of working

05

Going for growth

09

Key priorities

Welcome to our 2022 survey of Irish banking CEOs. We have surveyed the CEOs of Irish banks and international banks in Ireland, to get their perspectives for 2022 in the face of an ever-changing landscape. Fresh off the back of our global banking CEO survey, we are releasing our localised survey of the Irish banking market. Some of the same themes from our global report come out just as strongly in Ireland.

As we issue this report, the future suddenly seems a bit brighter with COVID-19 restrictions having been relaxed and glimpses of life returning to normal, which is great for many sectors of the economy including banking.

Nonetheless, the COVID-19 pandemic and the pending departures of KBC and Ulster Bank from the Irish market have created significant upheaval in the market – both in the way we work and the competitive landscape.

These themes come out strongly in our findings set out over the next few pages. Enjoy!



Ian Nelson,
Head of Banking & Capital Markets,
KPMG Ireland



Ways of working

As the world looks forward to a future beyond the pandemic, CEOs are considering the landscape before them: what does the future way of work look like? Many staff have not been in the office in almost two years at this point, and sentiment across the market appears to expect hybrid working to become fully embedded into the Irish way of working. As we issue this report, the Irish government is announcing measures to provide protections to those staff who wish to retain some element of remote working.

Hybrid working – the new normal?

Whilst the recent government announcements will likely accelerate the return to the office place, remote working is clearly here to stay. Many banks had already started on a journey to reduce their footprints prior to the emergence of COVID-19 and this trend has accelerated during the pandemic.

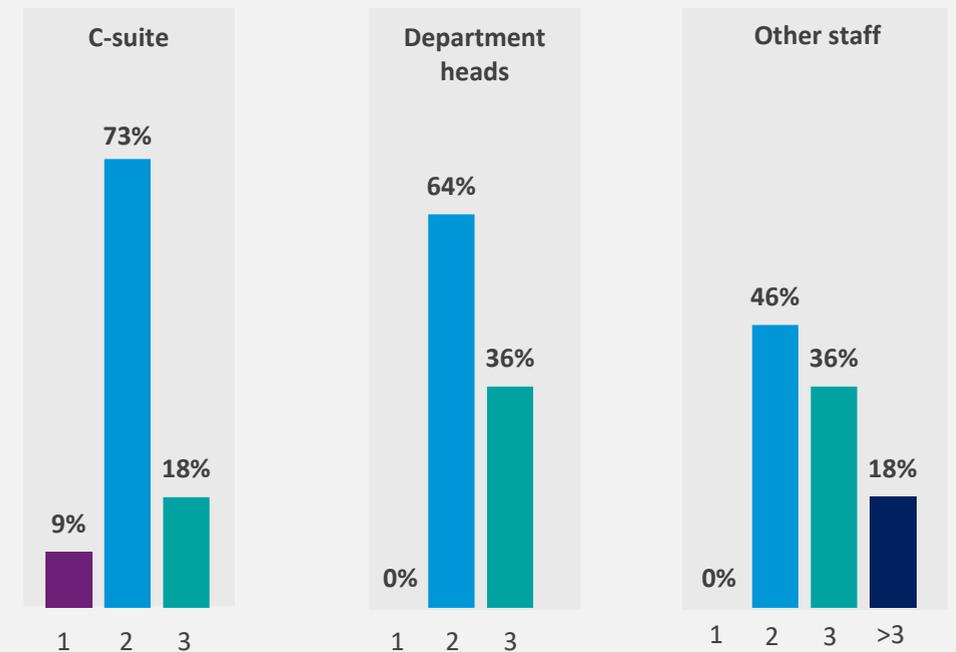
None of the banks surveyed expect their staff to return to working a five-day week in the office – with a three-two hybrid model appearing popular amongst the C-suite, with three days spent in the office - **almost three quarters** of CEOs selected this option, and more junior staff spending more time working remotely. **More than 50 per cent of staff below department head/team lead roles are expected to work at least three days remotely.**

Perhaps as a direct consequence of this, **the majority of banks plan to reduce their geographical footprint in 2022**. This phenomenon does not lead to expectations of reduced expenditure with only **one third** of CEOs telling us that they do not expect their physical footprint to generate cost savings.

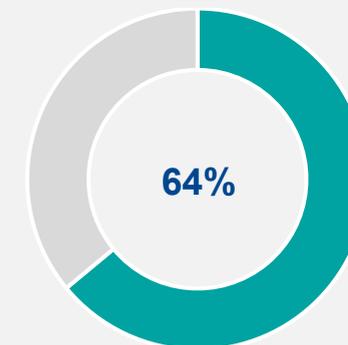
This is possibly due to the costs of supporting employees working remotely including the provision of IT equipment and network connectivity offsetting any rental reductions.

So while the reduced footprint may not be expected to bring immediate cost benefits, there is perhaps a clearer advantage for banks – people retention...

Expected number of days per week spent working remotely across different grades



Source: KPMG Ireland Survey, 2021.



of CEOs expect their geographical footprint in Ireland to reduce in 2022

Source: KPMG Ireland Survey, 2021.

People power

Banks continue to invest in their staff. Indeed, one of the biggest risks to the growth and delivery of their business strategy noted by CEOs is the ability to recruit and, crucially, retain talent. In the current market, this is more challenging than ever.

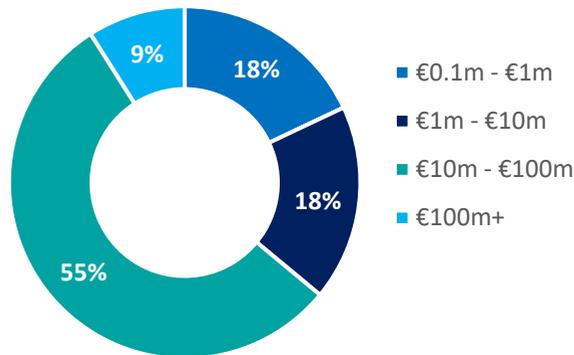
As we have seen on the previous page, CEOs clearly recognise the need to offer employees more flexibility in their working arrangements, particularly at the less senior levels in order to enhance work-life balance and make their organisation a more attractive place to work. Remuneration plays a part as well.

Employee costs are expected to increase in 36 percent of banks.

The technology challenge

Aging technology has been a problem for banks for a number of years, with millions of euros being spent each year on IT projects to upgrade systems and architecture. Cyber threats lurk ever-present, and that threat can only be greater with so many employees connecting to work with their own devices, and working remotely.

We asked CEOs how much they expect to spend on IT projects in 2022:



Source: KPMG Ireland Survey, 2021.

For **80 percent** of respondents, this is higher than 2021. **The main driver of IT spend flagged was system upgrades (80 percent), with a small number of banks prioritising digital transformation.** Perhaps bolstered by the realisation that digital projects can be delivered in short order (such as the facilitation of thousands of staff moving to a fully remote environment), we will see an acceleration of the digitalisation agenda.

73 percent of CEOs also expect to spend more on cyber defence in 2022 as compared to 2021.

“Resourcing is a challenge, with a fight for specific skillsets in what is an employee’s market at present in many respects”

Ian Nelson
Head of Banking & Capital Markets
KPMG Ireland

Going for growth

With the exception of those banks in exit mode in Ireland, CEOs are broadly keen to pursue growth opportunities. Strategies are diverse ranging from inorganic acquisitions (such as continued loan portfolio acquisitions), competing with FinTechs, the ESG agenda and digital acceleration plans (particularly in the payments space), and environmental, social and governance (ESG) initiatives. For the Brexit banks, the continued migration of products and customers to European hubs set up in Dublin provides a further opportunity, as does the continued attractiveness of Ireland PLC as a destination for multinationals to establish a base. All told, there are plenty of growth opportunities out there for 2022.

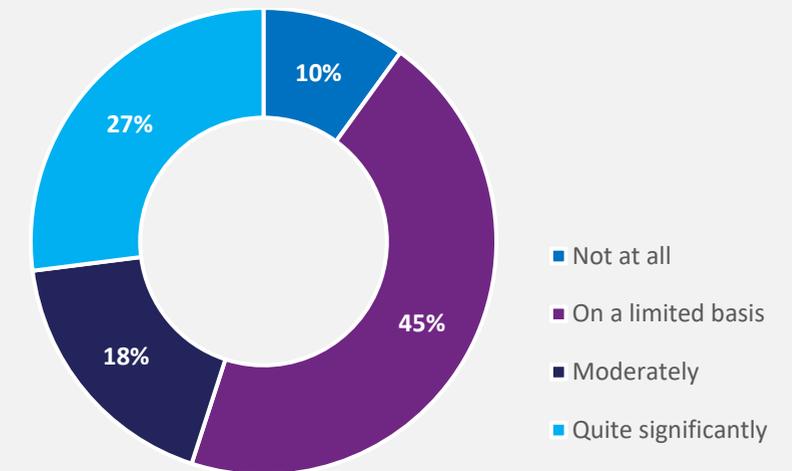
COVID-19 – time to look forward?

We asked the CEOs for their views on how the continuing pandemic will impact their business strategy for 2022. The results are varied to say the least – with a small number of banks saying ‘not at all’ and **28 percent** expecting it to have a significant impact.

There may be many reasons for this – but we offer two here:

- From an economic perspective, businesses have proven resilient throughout the pandemic, aided by extensive government support measures to avoid widespread defaults – with these supports having ended, or expected to come to an end in the short-term, banks don’t see a large uptick in credit risk – indeed provision levels continue to fall back down towards 2019 levels. Credit risk management ranks in the midfield of CEO priorities for this reason.
- On the people front, businesses have already adapted to remote and hybrid working – and hence the relatively relaxed outlook on what the future of work may look like. Employees can be effective at home and in the office.

How significantly has the continuing pandemic impacted your business strategy for 2022?



Source: KPMG Ireland Survey, 2021.

Most banks have considered the significant of impact of Covid-19 to their strategies, with some further refinement required through 2022.

Strategies for growth

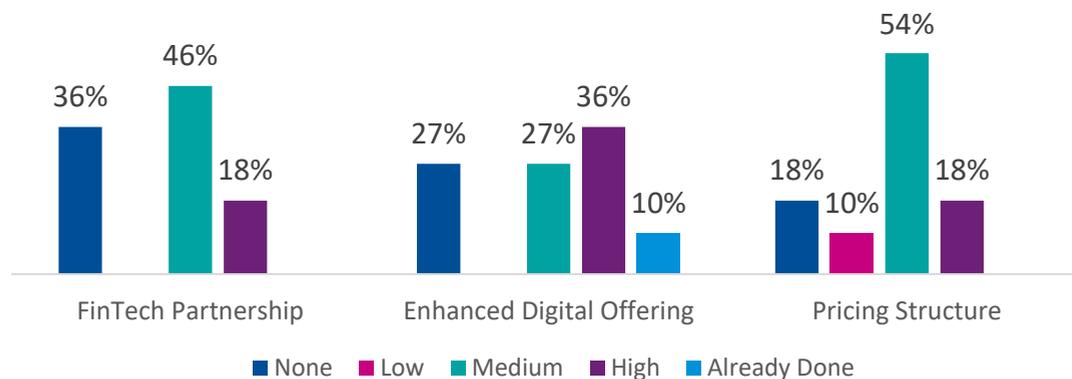
- **Mergers and acquisitions:** With the KBC and Ulster Bank pending exits from the marketplace being announced in 2021, the domestic banks have been actively seeking out opportunities to acquire loan portfolios, as have other market participants. As a consequence, **there was a strong divergence in views on the opportunities created by banking rationalisation in Ireland – with over half of respondents not seeing much of an opportunity.** Conversely, **27 percent** of respondents saw high opportunities and had high or very high appetites to grow their businesses further, beyond any 2021 announcements.
- **Organic growth:** Bank CEOs in the round see organic growth as presenting more opportunities than M&A activity, particularly among Brexit banks, with continued expansion expected, combined with the strong economic rebound expected from COVID-19.
- **Digital acceleration:** With the pandemic having proven fully remote working can be successfully delivered, the roll-out of digital transformation projects featured highly on a number of CEO agendas.
- **ESG:** the ESG agenda is no doubt a challenge for banks, as we will show in the following section, but presents clear growth opportunities as well.

A threat to growth: the FinTech challenge

We asked our participants a number of questions on FinTechs. Most CEOs see FinTechs as a threat – with the most common reason given being their lower regulatory burden which makes them more competitive. **64 percent** of CEOs ranked it first or second in the list. Agility and ability to outpace the banks came second on the list. The widest range of responses came in respect of versatility (i.e. range of different services), with a number of banks citing this as the number one threat, but an equal number putting it bottom of the list.

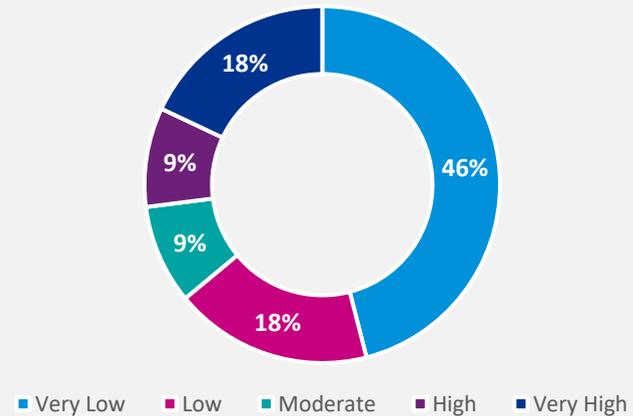
Cryptocurrencies do not really feature on the radar – **three quarters of CEOs do not expect cryptocurrencies and digital assets to have any significant impact on their business in 2022.**

So how will the banks respond to the FinTech challenge? The CEOs gave us their views on how certain initiatives fit into their priorities.



Source: KPMG Ireland Survey, 2021.

M&A ambitions among Irish banks



Source: KPMG Ireland Survey, 2021.

With a small number of domestically focused banks, the appetite for M&A activity in the wake of the KBC and Ulster Bank announcements is somewhat limited – most CEOs don't see this as a high priority.

What are the main threats posed by FinTechs seeking to disrupt the banking industry?

Rank	Threat	Score
1	Lower regulatory burden	2.27
2	Agility	2.82
3	Digital capability	2.91
4	Costs/pricing	3.27
5	Versatility	3.73

Scores represent the average rank each threat placed on a 1-5 scale, with a lower score representing a perceived higher threat, on average, among banking CEOs.

Source: KPMG Ireland Survey, 2021.

With a strong focus from bank CEOs on managing regulatory compliance issues as we see in the next section, it is no surprise to see the lower regulatory burden placed on FinTechs viewed as the number one threat to the traditional lenders.

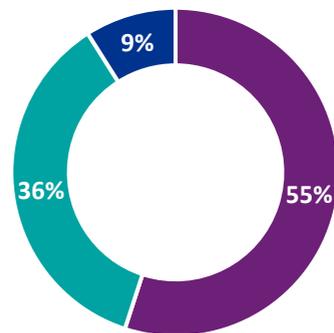
Key priorities

From fighting climate change to managing the regulatory compliance burden to grappling with legacy IT system upgrades, the range of priorities in Irish banks is broad. ESG may not be the number one priority for many of the banks in our survey but it scores consistently highly in the top three items for CEOs in 2022 – ahead of M&A/expansion activities and cost management. This shows that banks are connected to external stakeholders and working to meet their expectations.

The ESG impact

Stakeholder pressure on sustainability is increasing all the time. Nearly all firms see the demands increasing over time – yet are do not have the processes fully embedded to deliver against their externally imposed requirements. Most firms are some way on this journey – **almost three quarters** of respondents told us they were at least somewhat ready – but with work still to do. **All CEOs expect the ESG agenda to have an impact on their lending and business decisions in 2022.**

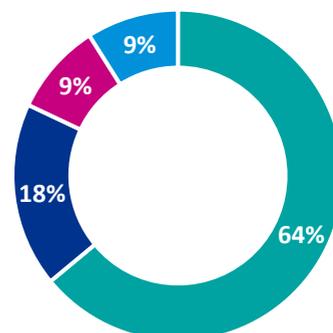
Focus on ESG during the pandemic



64% of Bank CEOs see stakeholder demands relating to ESG reporting significantly increasing in 2022 (High or Moderate impact)

■ High ■ Moderate ■ Very High

Source: KPMG Ireland Survey, 2021.



Most banks are still on their ESG readiness journey – 64% profess to being ‘somewhat’ ready to manage external ESG requirements – it is clear there is still a journey to be made.

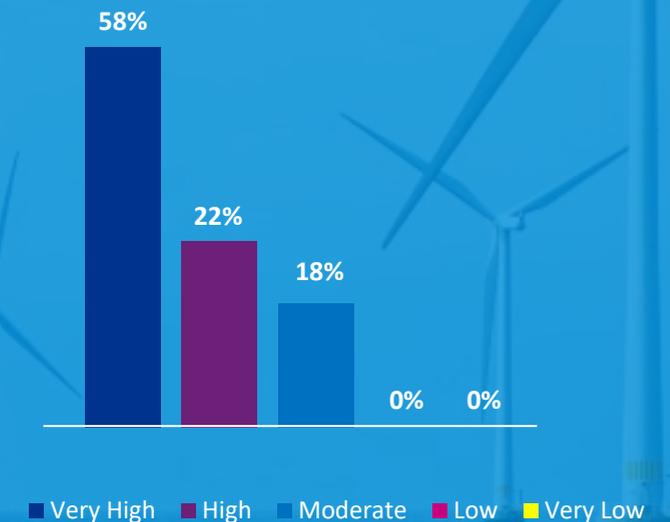
■ Somewhat ready ■ Very Ready
■ Neither ready nor unready ■ Somewhat unready

Source: KPMG Ireland Survey, 2021.

“ Banks recognise the stakeholder demands relating to ESG are only going to increase and are hard at work preparing themselves for the avalanche of impending reporting requirements. ”

John McGuckian
Director
KPMG Ireland

ESG Impact on lending and business decisions in 2022



■ Very High ■ High ■ Moderate ■ Low ■ Very Low

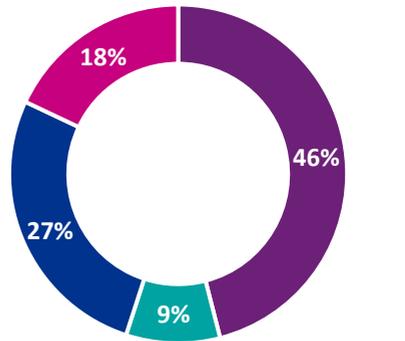
Source: KPMG Ireland Survey, 2021.

Facing down headwinds

The banking sector is not without its challenges. Regulatory compliance is an ever-increasing burden with no expectation of an easing off of compliance costs in 2022. In fact, **nearly two-thirds of CEOs expect their costs to be higher in 2022**. However, when asked about costs of regulatory programmes in 2022 only **one-third** expected their internal project (remediation) costs to be higher.

The high price inflation and current interest rate environment pose risks to business strategy as well. Most banks expect inflation to continue at a higher rate into 2022. **Almost three-quarters of banks see negative rates having a high or very high impact on their business strategy** – the continued uncertainty around the timing of interest rate rises does not help.

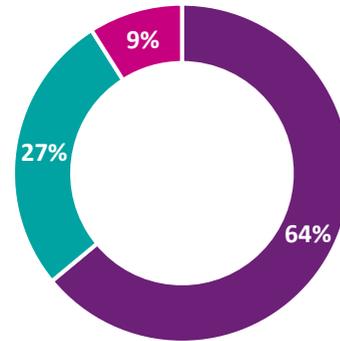
What is the current impact of negative interest rates on your business strategy?



■ High ■ Moderate ■ Very High ■ Low

Source: KPMG Ireland Survey, 2021.

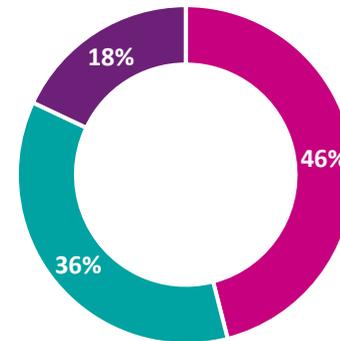
To what extent do you expect inflation to continue into 2022 and beyond?



■ Greater than 2021
■ Same trend
■ Less than 2021

Source: KPMG Ireland Survey, 2021.

How much will inflation impact on your customer / product / pricing strategy?



■ On a limited basis
■ Moderately
■ Quite significantly

Source: KPMG Ireland Survey, 2021.

“ While the economic outlook is positive amidst emerging sentiment that the worst of the pandemic may well be behind us, it is not all plain sailing for banks – with significant cost pressures continuing to be faced, combined with uncertainty around inflation and interest rates. ”

Matthew Green
Director
KPMG Ireland

Top of the CEO agenda

We asked CEOs to rank the following ten items by order of priority (with one being the highest priority). Whilst the most common 'number 1' priority amongst respondents (at **36 percent**) was organic business growth, it scored third overall, behind regulatory compliance, which did not finish any lower than 6th, and ESG which did only top scored for **18 percent** of respondents but equally did not finish lower than 6th on any bank's priority list.

It is unsurprising to see the **regulatory agenda** driving CEO priorities into 2022. **More than three in five CEOs see their regulatory compliance costs increasing this year.**

	Priority	Score		Priority	Score
1	Regulatory compliance	3.40	6	Net interest margin growth	5.73
2	ESG	3.91	7	IT and system upgrades	5.75
3	Business expansion – organic	4.54	8	Business expansion - inorganic	6.78
4	Cost management	4.69	9	Capital or liquidity ratio improvement	7.00
5	Credit risk management	5.25	10	Dividend payments	8.90

Scores represent the average rank each priority item placed in on a 1-10 scale, with a lower score representing a higher priority, on average, among banking CEOs.

Source: KPMG Ireland Survey, 2021.

Cost management ranks higher as a priority than credit risk management – perhaps due to loan books having performed much better than expected during 2020 and 2021, the focus is now shifting back to managing cost and generating a sustainable cost:income ratio and return on equity.

The lowest priority for all CEOs was dividend payments – this was a very public objective for a number of domestic banks in recent years but has clearly fallen down the list of priorities with all of the other challenges facing banks over the coming years.

The final verdict

2022 looks set to be an interesting year. Banks will be grappling with regulatory oversight challenges, monitoring the interest rate environment, facing down competition from challengers including FinTechs, and striving to hold on to their brightest and best.

The opportunities available to those who best manage the challenging landscape are plentiful – with expansion opportunities at home through M&A and via business growth and the acceleration of digital offerings and the ESG agenda.

We will be watching keenly.

“ CEO priorities vary by bank given different stages of the operating lifecycle. It is absolutely clear however that regulatory compliance and ESG stand clear as the top two items receiving most attention as we look out into 2022. ”

Ian Nelson

Head of Banking and Capital Markets
KPMG Ireland

Contacts in relation to this report



Ian Nelson
Head of Banking & Capital
Markets
KPMG Ireland
E: ian.nelson@kpmg.ie



John McGuckian
Director
Audit & Accounting Advisory
KPMG Ireland
E: john.mcguckian@kpmg.ie



Matthew Green
Director
Regulatory Consulting
KPMG Ireland
E: matthew.green@kpmg.ie

[kpmg.ie](https://www.kpmg.ie)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2022 KPMG, an Irish partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks of KPMG International Limited ("KPMG International"), a private English company limited by guarantee.