Forbes
INSIGHTS

BANKING: FORGING RESILIENCE FROM DISRUPTION

How Financial Services Leaders Can Leverage Volatility For Innovation

IN ASSOCIATION WITH

Crowe

Introduction

Forbes Insights in collaboration with audit, tax and consulting firm Crowe LLP conducted a survey of 500 industry leaders of companies with $500 million or more in yearly revenues.

Findings were summarized in recently published report "The Volatility Strategy: How Leaders Are Seizing Opportunities In Both Calm And Turbulent Times," which explores how executives that seek to innovate in the face of risk can make their organizations more responsive, capable and more likely to meet or exceed revenue growth targets—in both stable and uncertain times.

A closer examination of the responses from 65 banking industry leaders suggests there are several unique challenges, trends and potential new opportunities for that sector's executives. These relevant findings are considered in more detail below, offering what may be instructive implications about the future of the financial services industry.

Change Is On The Horizon

The threats, challenges and perceptions of volatility identified by banking leaders may help to explain why they're expressing a pervasive sense that large-scale changes are imminent. Nearly half of banking executives (48%) believe their organization will undergo a significant business transformation initiative within the next 12 months, the highest proportion among industries surveyed.

An even higher proportion (55%) of banking leaders foresee a business transformation within three years. And one-quarter—tied with the pharmaceuticals and biotech industry for the highest percentage of respondents—say it is extremely likely their organization will conduct a significant acquisition within the next three years.

Sizing Up Pressures And Limitations

Responses from banking leaders reveal an industry distinctly aware of volatility's business impact, as well as its potential benefits.

Nearly two-thirds (65%) of banking leaders surveyed say their organization sees volatility as an opportunity. That rate was second-highest out of eight industries in the survey, behind only insurance (69%).

With such a keen awareness of the potential of volatility also comes the understanding of the industry's own shortcomings. Compared to other industries, a higher proportion of banking leaders (34%) say their organization has been slow to respond to business volatility. That rate is twice the share of those in the technology, media and telecom industry answering the same question.

This outsized awareness could be due in part to substantial pressure caused by rapid technological change as well as rapidly shifting consumer preferences for financial services, which will be addressed in more detail in the two sections that follow.

Banking industry leaders were more likely than those in any other industry to say their organization currently faces extreme levels of volatility from regulation and taxation, with 17% saying as much. And at 17%, banking industry respondents were also more likely than their peers in any other industry to cite environmental, social and governance (ESG) as a significant source of *extreme* volatility they are currently facing.

Despite being charged with financial stability themselves, banking respondents were more likely than those in any other industry to identify financial risk (in the form of revenue growth, profitability and access to capital) as having the greatest impact on their organization now, and in the next three years.

Competition Is Intensifying

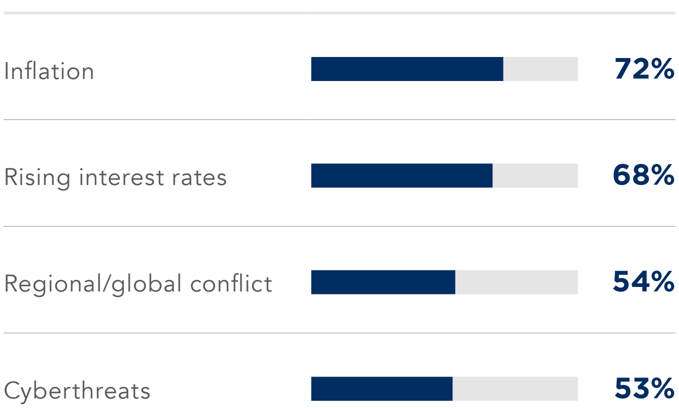
Compared to respondents in other industries, banking executives are the most likely to say they currently face high or extreme levels of volatility from within their organization (37% in banking vs. 27% overall). They are also the most likely to say they currently face high or extreme levels of volatility from within their industry (48% in banking vs. 34% overall).

Perceptions of elevated intra-industry volatility appear amplified when banking respondents consider the future. More than half (51%) anticipate facing high or extreme levels of volatility from within their organization in the next three years, and 58% within their industry in the next three years. This significant anticipation of volatility from within the banking industry may be largely attributable to rapid technological developments, particularly in AI.

AI can curate and deliver increasingly complex consumer and commercial financial products, including digital banking and predictive financial analysis. These new financial technology models paired with evolving consumer preferences may threaten the established financial services hierarchy as the barrier to entry gets lowered, and consumers engage with banking institutions in new and different ways. These opportunities for new competitors to enter the space could explain why banking leaders are more likely than those in any other industry to say they're experiencing volatility from within their organization and from within their industry.

VISUAL I

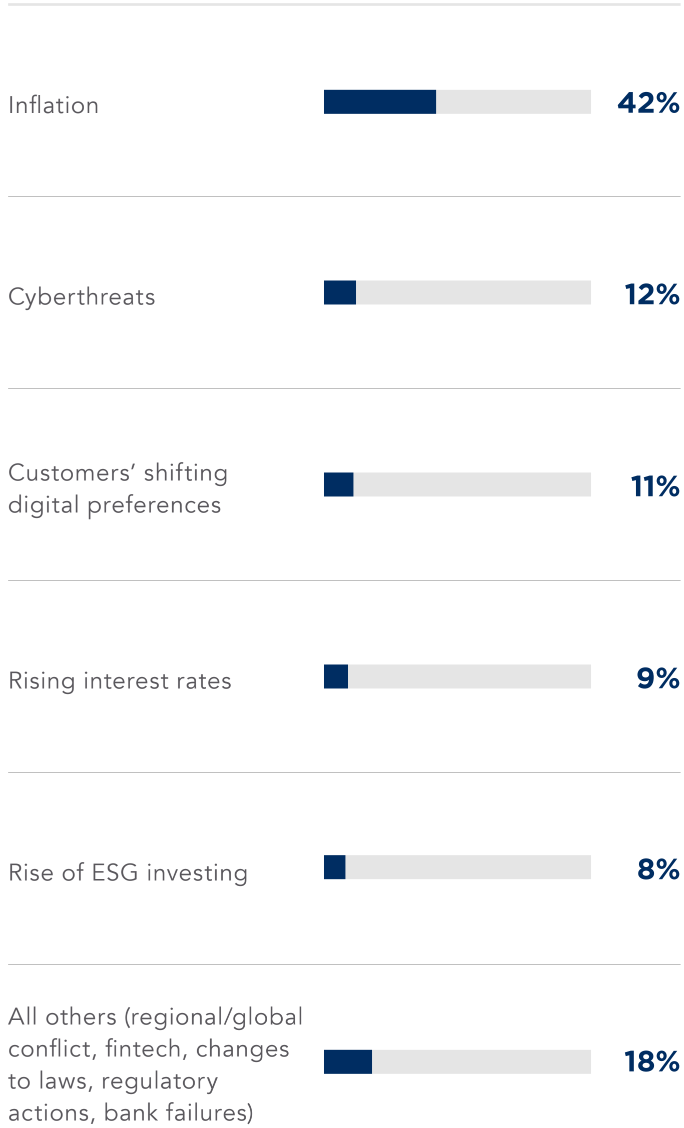
Top Sources Of Volatility Named By Banking Leaders:



Inflation Is Top Of Mind: When banking leaders were asked to cite just one source of volatility currently having the greatest impact, the winner was clear and all other options distant also-rans.

VISUAL II

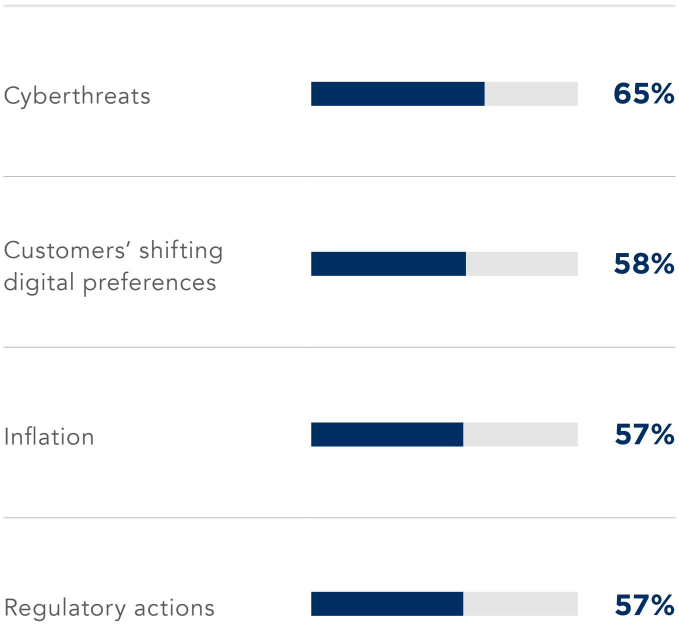
Single Source Of Volatility With The Greatest Impact:

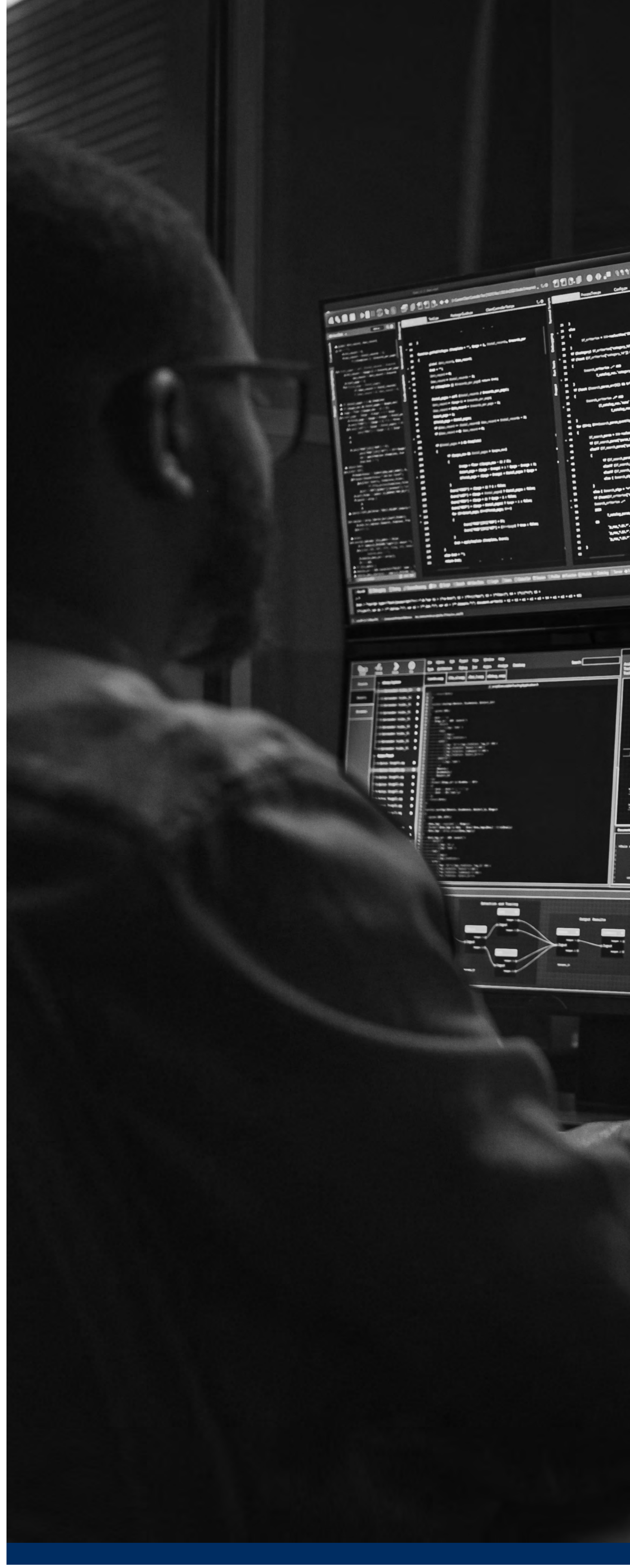


The Looming Threat Of Cybercrime: Banking leaders most frequently expect increased volatility in cyber issues within the next three years.

VISUAL III

Where Banking Leaders Expect Volatility To Increase Most In The Next Three Years:





Addressing Technological Disruption

Although most banking leaders show an eagerness to innovate, the industry appears to struggle with technological improvement. Nearly a third of banking respondents say that their organization's difficulty defining and achieving a future technology roadmap impedes their organization's efforts to benefit from volatility. Only leaders in the technology, media and telecom industry were more likely to name this challenge.

This lack of a roadmap doesn't appear to be slowing the industry's tech spending, however, as leaders seem to recognize that AI could greatly benefit their products and customers. More than two-thirds of banking respondents (68%) say they are pursuing technology-focused R&D investments to address volatility. Banking executives are more likely to say they are extensively evaluating and investing in AI compared respondents in other industries: nearly two-thirds (65%), compared to 58% across all respondents.

The industry's investments in innovation, however, may be tempered with caution. Perhaps wary of new technology that could potentially present a regulatory dilemma or pose cybersecurity concerns, banking executives are on high alert for volatility caused by artificial intelligence developments. Nearly half of banking respondents (45%) say they currently face high or extreme levels of volatility from AI, the highest proportion of all industries surveyed. More than half (51%) expect to face high or extreme levels of volatility from AI in the next three years—again the highest proportion among all surveyed industries.

Updating Organizational Culture

Banks may be attempting to address potential volatility from impending technological and organizational shifts by strengthening internal culture. Sixty percent of banking executives say they are increasing efforts around diversity, equity and inclusion (DE&I) to engage their employees to address volatility.

Sixty-three percent of banking leaders--more than in any other industry–say they will visibly promote a culture of collaboration, innovation and risk-taking. A similar proportion (62%)—the second highest after private equity among all industries–say they will increase investment in workforce training. And nearly two-thirds (65%) of respondents–more than in any other industry–say they will upgrade their culture by developing or expanding shared performance metrics across functions.

Conclusion

Banking industry respondents, most of whom are top decision-makers in their organization, would appear to anticipate substantial opportunity in the volatile years to come.

Their plans to invest in both technology and their workforce could be key in capturing value amid the potentially choppy waters ahead.

Advancements in technologies like AI could reshape how banking organizations interact with customers, and serve their changing demands—a shift that banking respondents recognize could ramp up competition in the sector. As a result, the industry's leaders appear ready to adapt and innovate with careful regard for regulatory updates that may be coming, and for the data protection of its consumers.

JASON COMPTON
Report Author

Methodology

In collaboration with Crowe LLP, Forbes surveyed 500 US-based executives from organizations with at least $500 million or more in annual revenues in August and September, 2023.

Of the 65 respondents in the banking industry, a majority, 74%, are C-suite executives, board members or partners. Eighty-eight percent of banking respondents are primary decision makers of evaluating and purchasing accounting or consulting/advisory services.