BANKS SEIZE OPPORTUNITIES IN AGE OF DISRUPTION BUT CHALLENGES OF SCALE, REGULATION AND MINDSET REMAIN

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Firm news

The top three concerns for senior executives at some of the world's largest banks are successfully delivering a digitally-driven business, navigating regulatory change and building operational resilience, according to a new survey.

Yet despite Boardroom anxiety about potential disruption to business in the face of current economic and political volatility, there is recognition that investment is necessary to remain robust and competitive.

According to a new report published today by Herbert Smith Freehills, more than one-third (39 percent) of senior banking executives believe the greatest barrier to transforming their business is the absence of a digital mind-set. A similar proportion (31 percent) suggest the scale and complexity of their bank presents the biggest hurdle to delivering operational resilience, while 24 percent view regulatory change as their biggest challenge in the next three years.

However, the firm's fourth annual Global Banking Review also reveals that banking executives are responding positively to the disruption faced in 2020. Almost half cited improvements to home working, one in five focused on enhancements to existing services and distribution channels and 10 percent have offered new services to customers.

“Keeping pace with the regulatory reform agenda is a top priority for many of the world’s banks, but if they are to succeed the challenge will be moving away from ‘policing’ activity to ‘spotting’ emerging risks,” says Herbert Smith Freehills partner and Co-Chair of the Global Banks Sector Group Tony Damian.

“The banking sector has enjoyed a reputation for being amongst the first to adopt new technology, but the current climate seems to be reducing the appetite for risk and innovation. Yet, whether the sector is focused on how to advance legacy systems or meet evolving regulatory demands, the real fear should be around how inaction might result in a greater number of obstacles blocking the path to success", adds partner and Co-Chair of the Global Banks Sector Group Hannah Cassidy.

The report, which comprises analysis of the approach taken by global banks on issues as diverse as governance, Libor transition, technology and syndicated lending, also reveals that, although the focus of external stakeholders on corporate accountability and financial resilience is front of mind for global banking executives, many banks are not conducting risk assessments around their environmental, social and governance (**ESG**) lending and investing opportunities. Just 14 percent do so for retail lending and 25 percent for mergers and acquisitions.

The latest Global Bank Review makes it clear that the disruption caused by an increased focus on ESG offers banks the opportunity to evolve their business practices, develop novel lending products and incorporate ESG considerations into their investment activities to meet customer and regulatory expectations. However, questions remain regarding who takes responsibility for this – with the data revealing that just 14 percent of Boards and 21 percent of senior leadership teams are accountable for ESG decisions.

“Understanding the scope and application of the range of new legislation and regulations, benchmarks and various disclosure and transparency requirements, gives banks a competitive advantage. ESG therefore offers a significant opportunity for banks to lead a fundamental shift in the finance industry and the wider economy”, says partner and Co-Chair of the Global Banks Sector Group Simon Clarke.

You can read the full report here

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