Banking and capital markets

Global Capital Confidence Barometer

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A note from Charlie Alexander, EY Global Banking & Capital Markets Transactions Leader

M&A remains a strategic priority for banking executives despite a less supportive operating environment

Despite ongoing geopolitical uncertainties, continued trade tensions between the US and China, as well as between the US and the EU, a still unresolved Brexit situation and a series of evolving regulatory challenges, banking executives don't anticipate a global recession (74% still believe the global economy is growing). However, their confidence in macroeconomic fundamentals is more tempered. In particular, they are feeling less positive about corporate earnings (45% feel positive versus 77% a year ago) and credit availability (57% feel positive versus 72% a year ago).

While geopolitical uncertainty and regulatory issues remain top-of-mind external risks to the growth of their business, increasing competition from existing competitors and a shortage of talent are creating pressure from within. For 60% of banking and capital markets executives, hiring and retaining talent is of considerable concern. More than one-third are struggling to find talent with specific technical skills relevant to their core business. Slightly less than one-third say they are challenged to find talent at all levels.

M&A efforts focus on expanding geographic footprint and addressing the talent shortage

Forty-one percent of banking executives indicate that they will actively pursue M&A in the next 12 months, down from 58% 6 months ago, but still slightly above the historical average. While expectations for improvement in the M&A market are also down from the last two previous M&A surveys, nearly half (48%) are anticipating that the M&A market will improve over the next year.

With talent top of mind, one in five is looking to use M&A as a means of shoring up their talent pool. Banks are also looking to M&A for gateways to new markets and growth into adjacent business activities. Interestingly, more than three-quarters expect an increase in cross-sector M&A driven by technology and digitalization, suggesting that banks are aware of the urgency for digital transformation, even if their primary M&A focus lies elsewhere.

In the last six M&A surveys, banking executives have consistently ranked the US, the UK and China among their top five investment destinations. This survey is no exception, with the US, the UK and China ranking one, two and three for dealmaking.

Banks increase their investment in technology

As technology continues to present both game-changing opportunities and risks for banking and capital markets companies, executives say they are increasing the amount of investment capital they are allocating to digital and technology. Interestingly, sectors outside of banking are allocating a higher proportion of their investment capital into digital and technology. Only 52% of banking executives say they will apply more than 25% of their total investment capital to digital initiatives, whereas 63% of global executives across all other sectors say they will do the same.

Banks need to consider their slower rate of investment, particularly given the accelerating speed of technological innovation, and consumer drive for the same digital experiences they get from other sectors – which banking executives admit is having the biggest impact on their company.

Top five investment destinations

1. US
2. UK
3. China
4. Singapore
5. Japan

With talent a top priority, banks need to look beyond financials and customers for long-term value creation

An overwhelming majority of banks already do a good job of measuring their financial and customer performance. However, as they look ahead, they are seeking to take a more holistic view of measuring long-term value creation. Eighty-four percent already have metrics in place to measure talent value or are planning to adopt them in the next 12 months; 79% already have, or have plans to adopt, metrics that measure social value.

The best-performing businesses see the importance of creating value for shareholders, customers, employees and society alike. Being able to measure and communicate long-term value creation with respect to their people may go a long way to creating an inviting and engaged environment to attract and retain talent over the long term.

The C-suite remains optimistic in the near-term economic outlook.

60% are confident in short-term market stability.

60% do not expect an economic slowdown in the near to mid term.

M&A intentions have softened over the past six months, but the C-suite is still cautiously optimistic on the outlook for dealmaking.

48% are expecting the M&A market to improve in the next 12 months.

41% are planning to actively pursue M&A in the next 12 months.

Finding the right talent and technology at speed is driving deals as executives articulate long-term value beyond traditional financial metrics.

60% of companies have difficulties securing the right talent.

79% already have or plan to have social value reporting metrics in place over the next year.

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