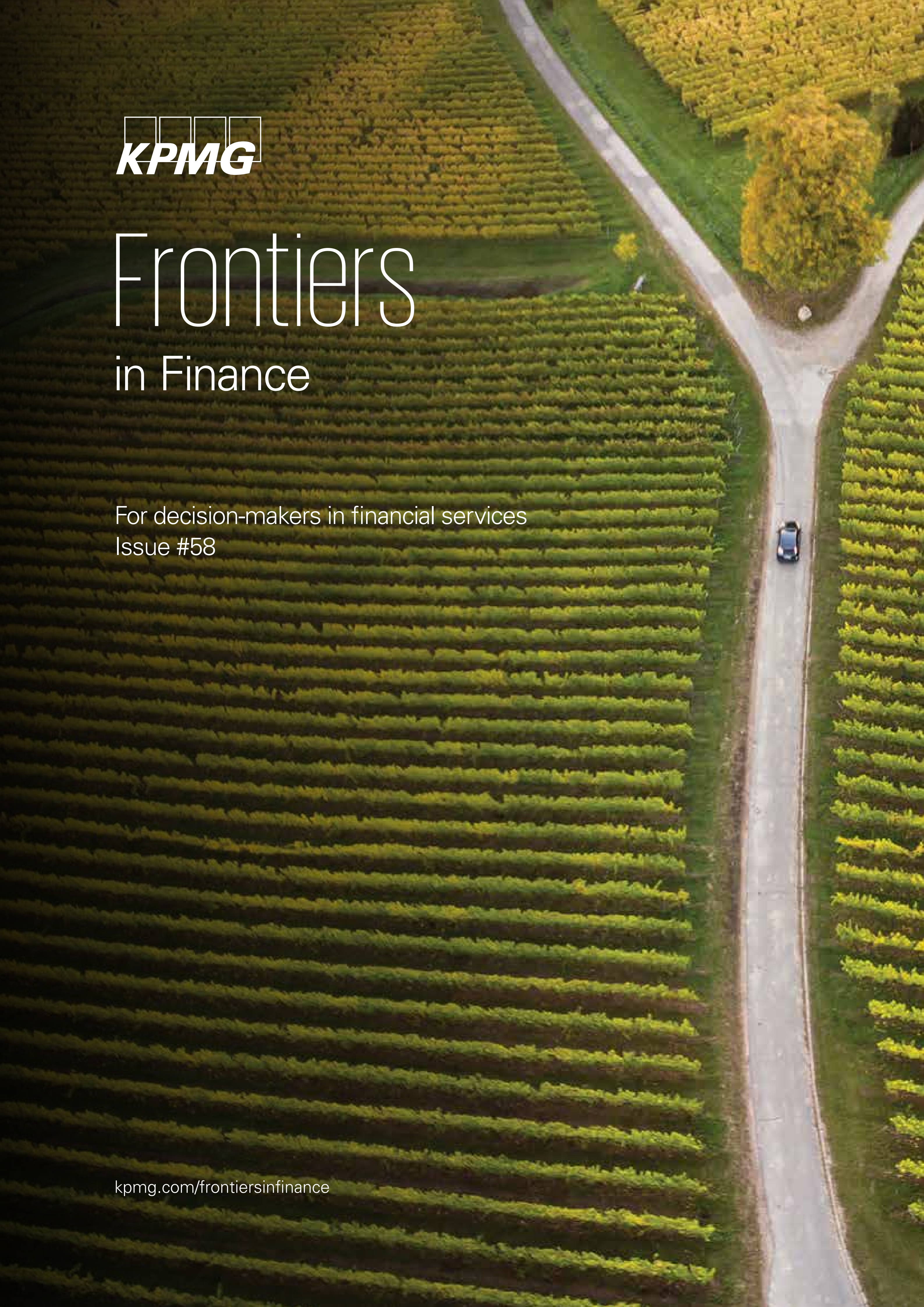

Frontiers

in Finance

For decision-makers in financial services
Issue #58

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A nuestros lectores

Una vez más nos acercamos a ustedes para compartir una nueva publicación de *Frontiers in Finance*, el medio a través del cual KPMG comenta su visión y puntos de vista sobre distintos temas de la actualidad del negocio financiero.

En esta oportunidad, nuestro análisis se centra en el rol de Chief Information Officer (CIO) en el mundo de la transformación digital y la importancia de su función ante la competencia de las FinTech.

Por otra parte exploramos cómo los ciberataques impactan en los modelos de contacto con el cliente en el marco de la experiencia digital. Los ciberataques y fraudes se han vuelto cada vez más complejos y esto implica el desafío de que las operaciones se desarrollen de manera más eficiente y también más segura. Asimismo, profundizamos el impacto de los ciberataques en el negocio de seguros y cómo este riesgo debe ser analizado en la definición de las estrategias de negocio.

En lo que tiene que ver con las regulaciones aplicables al negocio de seguros, analizamos en profundidad el impacto de la implementación de IFRS 17, y cómo deberán adecuarse las definiciones de nuevos productos y la determinación de precios.

Como en cada edición de Frontiers in Finance, aportamos nuestra visión y comentarios sobre temas de actualidad en el negocio financiero. Como siempre, nuestra red de profesionales está a su disposición para intercambiar ideas y compartir nuestra experiencia.

María Gabriela Saavedra
Socia Líder de Servicios Financieros
KPMG en Argentina

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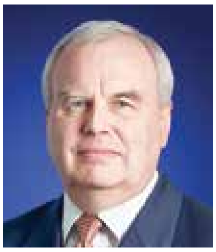
Retrospect and prospect

By **Jeremy Anderson**
Chairman-Retired, Global Financial Services



Jeremy Anderson

This will be my last foreword to *Frontiers in Finance*, since I shall shortly be handing over the Chair of KPMG's Global Financial Services practice, after 7 years, to Jim Liddy. Reflecting on the range of issues that the magazine has addressed since 2010 brings home to me the huge changes that the Financial Services industry has undergone in that time. The world has changed greatly; but Financial Services seems to have changed more quickly and more profoundly. We have passed from the aftermath of the global financial crisis to fundamental issues of how to compete in today's data- and digital-driven world. Immediately following the crisis, the challenges were significant and severe. Looking ahead, I believe that they will be, if anything, greater. Nevertheless, I feel — perhaps paradoxically because of the scale and nature of its response to the crisis — that our industry stands in a much stronger position now to adapt to the future, to compete and to serve the interests of its clients and customers more effectively.

Looking back … and forward

In 2010, the financial world was still very fragile. The Eurozone was still in crisis. Trust and reputation had been severely damaged and had still not recovered. Plans had been developed to rebuild liquidity and capital adequacy, but the underlying structure of the financial system was still very challenging.

Today, the battle of the balance sheet remains unresolved. But there is much greater capital in major financial institutions, and much better capital. No one could claim that the financial system is not more resilient. It is better able to appreciate and anticipate future shocks, and has a more sophisticated and responsive understanding of connected risks that can underpin their absorption. We are far from the end of the journey; but we have come a long way. And yet …

In the last year or so, the danger has arisen that this progress will falter. The comparative unanimity we have seen internationally behind developments such as Basel III and IV, Insurance Capital Standards and the rest is being threatened by the re-emergence of national imperatives. The correct balance to be struck between financial security, international trade and domestic economic growth is increasingly being interpreted differently in the light of individual national circumstances. Approaches to capital adequacy have been questioned. In the US, the administration of President Trump has questioned the necessity and extent of financial regulation. In the Eurozone, some major institutions are pushing back against the operating cost and capital implications of the Basel Committee's Fundamental Review of the Trading Book (FRTB).

So we are likely to find that agreeing to the next stages in strengthening the global financial system will become more challenging.

Nevertheless, these concerns should not distract us from recognizing the tremendous progress that has in fact been made: the huge convergence on objectives and means, the thrust to improve the resilience of the system. There will be challenges as central banks unwind their balance sheets and interest rates begin to rise from their abnormally low — and abnormally prolonged — floors. But their implications and consequences can now be confronted as 'known unknowns': we should by now have learned how to deal with them.

The new digital, data-driven environment

We have always argued that our industry's fundamental priority must be to focus on serving both individuals — customers and clients — and wider economies as effectively as possible. The most successful institutions, in the future as in the past, will be those who best achieve this. But what this entails in practice is changing more rapidly than ever under the pressure of digital technology and the data revolution. While we have necessarily had to concentrate on survival and recovery after the crisis, the world has moved on relentlessly. While the client relationship is rightly seen as the gold seam of today, mastery of the data revolution will equally yield the gold of tomorrow.

In recent visits to Asia and a number of European countries, I have been struck over and again by how similar the key issues facing financial institutions are right across the globe; and also by the huge pace of change affecting every business that serves retail customers. Financial services cannot escape this.

In China, the development of e-platform-based companies such as Alibaba offers glimpses of what the online digital economy will look like in the future. WeChat offers not only social media and instant messaging services but also a fully-integrated e-commerce and payment service that allows its 1 billion active users to order goods and services, transfer money, book restaurant tables and even pay electricity bills and traffic fines. When such applications capture customers' attention on tablets and smartphones with a combination of relevance, accessibility and fun, they can sweep the board, representing an existential challenge to traditional financial institutions.

In Europe, the new payment services directive (PSD2) aims to promote competition in payment services across the EU and stimulate the entry of new non-bank participants to the market. I have found that opinion is still divided about how significant the challenge to incumbents will be. While PSD2 will remove some barriers to entry, we have yet to see major e-commerce giants such as Amazon or Google fully committing to the competition. Some institutions therefore see this mainly as a technical issue. Others, perhaps more farsighted, appear to be learning the lesson from China as to how fast the market can respond to new services and applications that meet customer needs better and faster. With major banks announcing new, much broader apps, I believe the threat to incumbents may be greater than many recognize. A few years ago, fintechs might have been seen as a threat, now it is the tech companies with large numbers of existing clients and the platform-based companies that we need to set as the new benchmark to learn from and compete with.

Conversely, I was very struck during a recent visit to a Nordic country to discover that a financial services group is starting to build its own hospitals. Their strategy is clear. They have significant market share in banking and health insurance but as a mutual group are always seeking to reinforce their community presence and emphasize their relevance to members. While the move into the healthcare value chain is a means of controlling the cost and quality of service, it is also designed to enhance the customer experience and the relevance of the institution to their customers' lives in an age where financial services is losing physical presence and personal contact. The move by general financial services institutions towards horizontal integration is a further sign of new thinking around the nature of customer centricity in a rapidly-changing landscape.

So to my mind, the big unanswered questions are as follows: are banks and insurers going to sustain further horizontal integration? who will own the client relationships of the future? if new entrants, from outside the traditional financial services sector, succeed in capturing customer loyalty, and thereby secure the core source of value, what will that imply for today's incumbents? and if banks lose their client relationship intimacy can they generate the margins and organic capital growth they need to support economic growth?

As ever … client and customer focus

In *Frontiers in Finance*, we have always tried to give grounded and practical advice. It is clear that, whatever strategies companies adopt to compete in the new digital and data-driven environment, retaining and strengthening the absolute focus on the client and the customer will be key. This insight underpins our examination in this issue of identity protection, privacy and cyber security as a foundation of institutional reputation. We also look at how customer centricity is developing in insurance and asset management, and how technical developments in blockchain and elsewhere can offer practical and scalable ways to improve service and deliver new client solutions. Most importantly, perhaps, we return to the critical and developing role of the CIO and how it is increasingly essential to successful banking transformation.

In all these cases, the key issue is what will make a real difference to clients and add value to the customer experience. The ability of new technologies to allow Financial Services businesses to operate better, faster and more effectively is unquestionable. I recently heard from a major global bank that running their global liquidity report, which used to take a full day on their in-house infrastructure, can now be completed in the cloud in 30 minutes. The benefits of such a transformation on an institution's ability to monitor its exposures and manage liquidity are immense.

In B2B relationships, new technology can deliver major gains in productivity, speed and value to corporate clients. In B2C contexts, it can transform usability, experience and satisfaction, cementing customer loyalty. Machine learning solutions can enable tangible cost savings, and as we go forward, true cognitive solutions will continue to transform the industry. In all these cases, technology can bring major benefits to the wider economies that we serve. But maintaining the client lens as the anchor of all our transformational thinking is essential to retaining and developing client relationships more effectively than the competition, in increasingly volatile environments.

Conclusion

In its response to the global financial crisis, our industry has shown that even the largest financial institutions can change and adapt very significantly. This should give us confidence in their ability to respond to and capitalize on emerging opportunities and the data revolution. This is important. Over the *longue durée* a robust and thriving Financial Services sector is fundamental to support thriving economies that, in their turn, are the foundation of growth, well-being and social progress. Navigating the next set of challenges will not be straightforward: both the scale and the pace of the transformation we are experiencing are unprecedented. But this is one of the things that has made my tenure of this role so fascinating.

It has been a privilege and a pleasure to compose these keynote articles for *Frontiers in Finance* over the last 7 years. I should like to thank all the clients who have supported KPMG professionals' work during that time, and all those who have contributed to making it the insightful, analytical and forward-looking magazine that its title promises. In Jim Liddy, KPMG has an excellent new Chair of Global Financial Services. I look forward to seeing how he will bring the ideas and technology, which often originate in the US, to a wider global audience. And as an acknowledged and award-winning expert in corporate governance, he is ideally placed to help the industry continue to rebuild trust and confidence, and promote transparency, fair conduct and client centricity.

Jim Liddy has recently succeeded Jeremy Anderson as Chairman, Global Financial Services. As Jeremy retires from KPMG, this marks a long and successful career in this industry. On behalf of his clients, professionals and member firm Partners, we would like to thank Jeremy for his tireless work, guidance and leadership over the years. His successor, Jim Liddy has been a pillar of the Global Financial Services sector for many years. He has spent a significant portion of his career as our Lead Partner and Account Executive for some of the largest and prestigious global financial institutions. He was Head of Financial Services in KPMG in the US, prior to becoming US Audit Vice Chair in 2010. Jim re-joined the Global Financial Services Leadership in 2015 to become Americas Leader for Financial Services. Jim is a respected voice on corporate governance and board matters, having been selected by the US National Association of Corporate Directors on three separate occasions as one of the 100 most influential leaders in corporate governance. We wish Jeremy all the best in this next stage in his life. Jim will take over the reins of this article in future issues of Frontiers in Finance. ■

Data strategy needs a new mindset

Takehiko Nagumo
Executive Officer and General Manager of the Corporate Data Management Division, Mitsubishi UFJ Financial Group

Kiyomi Uchi

Interview with Takehiko Nagumo, Executive Officer and General Manager of the Corporate Data Management Division, Mitsubishi UFJ Financial Group.

The 'principles for effective risk data aggregation and risk reporting (BCBS239)' of the Basel Committee of Banking Supervision has caused a fundamental change in the data strategies, which support business strategies, of the leading global financial institutions. Data strategy is now moving to the 'offense' phase to create added value through data utilization from the 'defensive' phase where compliance with regulations was the main focus. Mr. Takehiko Nagumo, Executive Officer and General Manager of the Mitsubishi UFJ Financial Group Corporate Data Management Division who is responsible for implementing data management for the group and is an executive board member of Japan Data Management Consortium provides *Frontiers in Finance* an exclusive interview about the company's past efforts and his insight about the future.

Kiyomi Uchi
FRM National Lead Partner,
Global Lead Partner of MUFG
KPMG in Japan

"'Business innovation through digitization' was set in your group business strategy," MUFG Re-creation Initiative announced in May 2017.

Top executives acknowledging the business environment

How has the business environment and your data strategies changed before and after the implementation of BCBS239? What is your perspective as a person responsible for data governance and data management?
The importance of data in banks' overall business management functions changed dramatically after the global financial crisis in 2008. If the underlying data was incorrect, it would be impossible to make correct calculations (e.g. capital required to cover the corresponding risks taken by the bank). And if the calculations were incorrect, executives would not be able to make appropriate business decisions. This could lead to systemic risks for financial authorities. BCBS239 was developed on the premise that this data is important.

From the 'defense' perspective, a variety of regulations, such as regulatory reporting, stress testing, recovery and resolution plans (RRPs), personal information protection and anti-money laundering (AML) are driven by data and have evolved. This evolution has taken place in various countries simultaneously. Financial institutions must recognize that the time to utilize data for compliance has come.

From the 'offense' perspective, there are also newly emerging opportunities to generate revenue by utilizing data. It's about understanding customers to develop new products and services using technologies such as artificial intelligence (AI) on the unstructured data and big data that, previously, have not been fully utilized.

What were the triggers of top executives' acknowledgement on the value of data and significance of investments in data?
There are two factors. The first one has to do with negative interest rates introduced by BOJ. Cutting costs and improving efficiencies of business has become more important than ever before. We now realize that various processes can be streamlined by using data and technologies well.

The second factor relates to the emergence of new technologies such as fintech and regtech. These new technologies cannot work without data. The more we consider this digital transformation, the more we realize the importance of data. We are encountering the word 'data' more frequently at our executive meetings. Executives are now aware that we cannot develop and implement smart strategies unless we manage the data appropriately.

Teamwork solves the shortage of data experts

"'Business innovation through digitization' was set in your group business strategy," MUFG Re-creation Initiative announced in May 2017. What initiative will be implemented, and what will be your role therein?
In our next business strategy, we have transformed our organization from 'entity-driven' to 'entity-crossover'. That is, a customer- and business segment-driven business operation. In line with this, the management and utilization of data will be changed from entities (e.g. bank, trust bank and securities company) to the business segments. One of our roles will be to develop data architecture for the group to enable the utilization of the data in this manner.

As information is digitalized, it is imperative to develop an architecture in which data flows from the upstream to the downstream of business processes. The data architecture of this new era needs to take an 'offense' role, in which the data can add value by using AI while, at the same time, meet the conventional 'defense' requirements, including data governance and management. Another role that will be required is the research and development of the data architecture in this new era.

What are your biggest data governance and management challenges in support of the transformation of your business and operational models?
One of the challenges we're wrestling with is how to visualize a data model that sits between the business model and IT. And, related to that, how do we go about reinforcing the importance of data models in the minds of company executives? Going forward, these matters will be the biggest challenges.

Unfortunately, there is a shortage of human resources that can implement data models immediately. One way to address this is to establish what I call a 'data culture'. It will take more time. And it needs to be a widespread effort. Doing this in one division alone simply won't work.

Also, generally speaking, Japanese companies lack an awareness of the importance of data. This is a significant challenge for establishing a data culture.

Our approach combines raising these skills in-house as well as hiring from the outside in order to expand our data-related human resources. However, the Japanese labor market is not particularly deep when it comes to data professionals. Therefore, we need to raise our skills in-house to a respectable degree. And when we hire and utilize them from outside, we also need to develop a Silicon Valley type culture that will allow failures or introducing an agile type way of thinking instead of a waterfall type. When it comes to data scientists, they need to have deep knowledge of our business, IT, mathematics and programming. However, it is very difficult to find personnel who possess these skillsets. So, it is indispensable for all financial institutions to work as a team. Teamwork is one of our true strong points in Japan. I believe there will be a chance for Japan to win if we can develop business models in which companies can compete in the skills arena the same way runners do in a 400-meter relay race, handing off the baton to one another.

Organizations are being tested in global competition

How do you view the initiatives taken by leading American, British and European financial institutions? How are they different from your group?
Various reforms have been taking place in Japan, similar to those we saw with the European banks, which suffered the most severe damage from the global financial crisis in 2008, along with some of the American banks. The financial institutions in Japan were slow starters, as they did not experience significant damage in the global financial crisis. However, all financial institutions are still in the difficult situation of having to develop the culture/foundation for the data utilized business operation and IT architecture. When it comes to human resources and research and development, the American financial institutions are running ahead of us. The rest of the banking institutions in the other regions are running in a mass.

Having a huge overseas network generates difficulties related to governance, but it also acts as a reception gate of know-how. Our European and American entities have data-related personnel and we can hire employees through those entities. We could see the chance to win on the global stage by introducing know-how available in Europe and America into Japan and scaling them up.

You mentioned that human resources is a challenge. What are the key drivers to win in global competition?
When it comes to winning on the global stage, one of the key drivers is the organization's power, including management. Establishing a data culture will take time. When an organization matures to the point where there's an inherent sense that data produces value and data management is indispensable, then the data utilized business reform will be accelerated. However, failure of the reform could lead to losing in global competition. The organization's power to catch up with the requirements of the times is important.

What role will your division play in developing a new value by better utilizing data?
The development of a new value will be a joint undertaking among several business divisions. This is because we don't know how to utilize data if we don't have the business insights. I have personally studied AI and have learned that data utilization starts providing business insights and when we can exceed that phase, we will reach the horizon that surpasses the human brain. In the present situation, those personnel who have business insights do not have experience or achievements in data utilization, and verse versa, so we are in a difficult situation in terms of data utilization. As such, I think the presumptions of data utilization, such as data quality management are important now.

Fintech companies are enablers, not disruptors

Companies in different business segments are starting up financial services one after another and trying to bring more financial services to the economic zone. How do you see this trend as a leading financial institution that has a huge client base?
The idea of disrupting the traditional financial institutions was strong when fintech first debuted. However, fintech is now regarded as an enabler and it is widely considered that we need to build win-win relationships with them by collaborating and cooperating. However, the data owned by banks cannot always generate sufficient value. Conversely, the value created by the data owned by manufacturers, service companies, government agencies, etc. is also limited. While protecting personal information, we need to merge those data to create a new value proposition. This is a significant challenge for us.

> It is desirable to cooperate, not compete in the 'defense' area of data, and it is also desirable to have a movement to develop a social infrastructure, through collaboration between governments, financial institutions, consulting companies and vendors.

Data protection and regulation

What impacts will the regulations related to the data protection such as the EU General Data Protection Regulation (GDPR) have on data governance and management?
The more that corporations are global companies, the more important it will be for us to take actions in the future. The GDPR is a regulation that is creating a fresh stir, in that it requires extraterritorial application. The wave of data protection and privacy protection regulation might be spreading to other countries. If everybody moves towards protectionism, such as the relationships between protection trade and free trade, the whole value of data would be decreased; as a result, the usefulness of that data would also decrease. Although small countries tend to move towards protectionism, if they were aware of the decreasing value of their data and its usefulness by introducing the protectionism, they might reconsider free trade to increase the whole value of data.

The retail business is the most affected business in the financial institution. As we are not providing the retail service in Europe, GDPR will not affect us directly. I believe that we could overcome this by establishing an infrastructure to deal with the issues, even though we anticipate some impacts in some areas such as employees' data and entity representatives' data. As such, we carefully need to monitor these trends going forward.

What data management opportunities do you see in Japan?
Now, each company is developing data management frameworks through their own efforts and at their own expense. This is too inefficient. If we could develop something like accounting standards in the data management world, we could utilize them as a public good. It is desirable to cooperate, not compete in the 'defense' area of data, and it is also desirable to have a movement to develop a social infrastructure, through collaboration between governments, financial institutions, consulting companies and vendors. Many stakeholders would also benefit if the cost of the social infrastructure could be lowered, and competition should be focused in the areas where intelligence is required.

There are only three megabanks in Japan. If those three megabanks cooperate together and develop public goods such as data management framework and framework for standards, we could put them into practical use ahead of European and American countries. We would like to find a good solution through discussions with stakeholders. ■

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Driving your fintech journey

By Murray Raisbeck, KPMG in the UK
Matthew Smith, KPMG in the UK

Murray Raisbeck

Matthew Smith

The past few years have brought about significant changes to the fintech landscape. No longer seen only as a disruptive force in the financial services industry, fintech innovation is now drawing the attention of traditional financial institutions for its potential to spur positive change.

In fact, in KPMG's 2017 Global fintech survey, 97 percent of respondents indicated they see fintech as an opportunity.[1] For evidence of this shifting focus, one need only look at current trends in corporate venture capital (CVC) investment.

Corporate venture capital investment continues to rise

From the ability to grow the top line and transform the customer experience, to opportunities to drive efficiencies throughout the business, fintechs offer a range of potentially significant innovations. According to the Q2'17 KPMG *Pulse of Fintech* report, CVC investors have become key drivers of global investment in fintech, providing more than 2.6 billion US dollars (USD) to fintechs worldwide and accounting for more than 21 percent of all activity in the first half of 2017. The search for innovative services and solutions is central to this activity, as financial institutions look outside their own organizations for the capabilities needed to excel in a world of digital and sector convergence.

> "While complexity is a significant barrier to financial institutions' speed of adoption, there are also deeply engrained cultural factors, which slow adoption and create resistance to change. Embracing digital innovation is thus as much a cultural challenge as it is a technical one."
>
> **— Murray Raisbeck**

[1] *Forging the future: Embracing fintech to evolve and grow*, KPMG International, 18 October 2017, kpmg.com/fintechreport.

While many corporates are using fintech investment as a means of sourcing solutions to specific business problems, others have broader motivations. Some are looking to realize a financial return from fintech investment or responding to pressure from capital markets that reward a good R&D story.

The search for return on investment

With early players having 2–3 years of fintech venture capital (VC) activity at their backs, many are looking to realize a return to support a business case for continued investment. The horizon for returns for corporates is often shorter than in VC firms; a 5-year time frame is common due to reporting cycle pressures.

As financial institutions' investment arms become more established, many are focusing on later-stage deals, seeking the ability to grow and scale through market-proven solutions. Corporate VCs are also diversifying their portfolios to reduce their risk profile by investing in technology firms in sectors adjacent to the financial industry in response to sector convergence.

Investments in areas such as know-your-client (KYC), biometric security for banking apps, and digital payments solutions are all reaching a point of maturity. Digital wallets are another high-potential area showing increasing traction, though market saturation means that consolidation is likely in this space. Other, more speculative, areas — including hot, headline-grabbing fintechs — are still years from showing a return. AI and blockchain show significant potential but have a long horizon for returns.

Aligning fintech strategy with business strategy

In KPMG's global fintech survey,[2] less than half of responding financial institutions reported having a full fintech strategy. An additional 42 percent say that their strategy is still being developed, while 10 percent say they have no strategy at all. These gaps can have serious consequences in years ahead, especially as the fintech landscape continues to transform.

Financial institutions looking to better align their fintech strategy with core business goals are encouraged to consider the following three key areas.

> “Organizations that invest for a return outside their core competencies are going to reap mixed results and unintended consequences. Success will come from targeted investments with deliberate approaches, especially those that are looking to support technologies that alleviate pain points within their business.”
>
> **— Matthew Smith**

1. Identify specific pain points. While fintech and related subsectors, including insurtech and regtech, can address tactical challenges, the deeper potential is in using digital means to address larger strategic issues. Start with a practical approach: take a close look both within the business and in the wider market to identify high-potential opportunities for strategic transformation that can be driven by new capabilities that do not have to be built internally.

2. Develop a strategic vision for a digital future. Envisioning the future during a time of massive transformation is a complex process, and many end up getting bogged down in small details. Instead, organizations should look to answer four questions:
— what role do we want to play in our clients' lives?
— what will we be famous for?
— where should we play?
— how can we win?

Responding to these questions will likely have significant implications for the organization's financial, business and operating models and, therefore, the way they identify new fintech capabilities to support their aspirations. Understand that not all institutions are going to win in the role they play today as a product or service provider, and that the time to invest in significant transformation opportunities is now.

3. Identify specific innovation approaches. Financial institutions may consider options along three main paths for investment: speculative investment for the purposes of financial return; improving the value chain through new capabilities that are incubated and then integrated into the wider organization; and/or the development of new 'greenfield' companies to avoid the challenges of legacy operating models.

Concerns such as legacy systems, people and processes have understandably monopolized many financial institutions' time and budgets. However, fintech is about more than addressing technological challenges. By embracing and encouraging the growth of fintech capabilities through investment, traditional financial institutions have the opportunity to reshape their financial, business and operating models and change their culture to succeed in a digital future. ■

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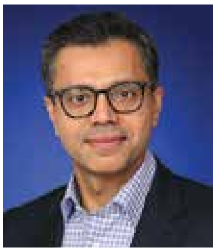
Matthew has over 15 years of experience working in the financial services sector. Primarily focusing on insurance, Matthew brings deep expertise in three critical areas: 1) strategy, 2) transformation design and leadership and 3) operational leadership.

[2] Ibid.

CIOs at the epicenter of the digital revolution

Safwan Zaheer, KPMG in the US
Phil Crozier, KPMG in the UK
Tek Yew Chia, KPMG in Singapore



Safwan Zaheer

Phil Crozier

Tek Yew Chia

The banking industry is going through one of the largest transformations in its history. Traditional banks are not only dealing with increasing competition from fintechs and technology giants trying to take market share away from banks, but also the rising pressures from new and increasingly complex regulations worldwide.

Bank Chief Information Officers (CIOs), with their oversight of core banking and back-office systems, find themselves at the epicenter of this digital revolution. They face a two-sided challenge: they must keep the legacy technology operational to maintain current revenue streams, while simultaneously pushing the organization to innovate to remain relevant in the years to come.

These internal and external pressures result in a driving need for innovation. According to the *2017 Harvey Nash/KPMG CIO Survey*, 63 percent of banking respondents indicated that "developing innovative new products and services" was among the top five key business issues their management board are looking for IT to address — noticeably above the average of 51 percent across all industries.[3]

Managing conflicting pressures

Despite the clamor within the banking organization for innovation, additional factors work to monopolize the CIO's time, attention and budget. Banks and other financial services organizations looking to implement digital capabilities face greater challenges from compliance and related legal issues than do corporations in other industries. Forty-five percent of respondents indicated that "dealing with legal and regulatory compliance issues" was among the top five greatest challenges their organization faced in successful implementation of digital capabilities.[4]

Key regulatory issues around risk and control loom large in many CIOs' windshields, diverting attention and budget away from the drive to innovate. The resilience of technology has become a significant issue for many CIOs, with concerns increasing around the risk of systemic failure, security breaches and customer impacts from

> "While cyber security and operational resilience will continue to be a priority for CIOs, this cannot reduce the need to improve agility and drive innovation."
>
> **— Phil Crozier**

[3] *Harvey Nash/KPMG CIO Survey 2017*, KPMG International, 22 May 2017, kpmg.com/ciosurvey.
[4] Ibid.

major tech outages. These factors push many banks into a mindset of safety and protection, which is essential but can also have the effect of stifling the agility needed to spur innovation.

Forging a path forward

Despite current challenges, banks remain well positioned to compete with fintech startups and large technology players — if they act quickly. Many of the fintech innovations in the market today focus on front-end innovation, providing a digital interface between a customer and existing core banking systems. Yet as technological change pushes towards mid- and back-office functions, CIOs must make significant moves to innovate while banks still hold customer trust and market share.

CIOs should consider the following three steps on their route forward:

1. **Keep innovation separate for traditional, large-scale delivery.** Given the current pace of technological change, CIOs need to be in an 'act fast mode' and create an environment to test new services and digital technology outside of the core banking system. This provides the freedom to iterate quickly and prove the effectiveness of a new service or system, before bringing that service into the main business.

2. **Minimize integration between legacy systems and new technology.** Look to develop agile platforms as core strategic assets to enable digital delivery, with minimal legacy integration for the sharing of data, through cloud and middleware technologies. Understand, too, that the future of banking will see the mid- to back-office functions becoming completely digital and automated, powered by technologies such as AI, big data and blockchain. This prospect presents a significant opportunity for banks to rethink their business with a digital focus and use technological change as a catalyst for innovation throughout the organization.

3. **Create greater flexibility through business collaboration.** A new business model is required to support innovation, with closer alignment between business, operations, marketing and IT. As innovation becomes increasingly critical to banks' strategic direction and profitability, CIOs and other business leaders must collaborate earlier versus downstream when critical business decisions have already been made.

Technology to advance the customer experience

Traditional financial institutions are now in the position where they can form a relationship with startups and technology companies to develop innovation that not only improves back-end efficiencies and reduce costs, but also provides customers with the experience they have come to expect.

A step-by-step approach that includes the three stages cited above requires having a clear understanding of the specific needs or problem to solve in order to design a solution that addresses the business need.

Once the appropriate solution is developed, instead of widely deploying and trying to integrate it into existing systems, banks need to take a page from how startups introduce new products. New technology should be treated as a proof of concept, to be tested in an environment that's separate from the main legacy system and main IT and operations systems. Once solutions show promising signs of market scalability, they can then be brought into the firm to integrate with legacy systems, if possible to do so. If not, the CIO needs to devise a new approach to host and maintain the solution and underlying technology.

Driving cultural change at an organizational level

Despite the excitement around innovation within the banking industry, internal stumbling blocks nonetheless bar the way forward. The traditional culture fostered within banks is often at odds with what is needed to drive and deliver agile innovation consistently and at scale. Thus, the digital evolution is as much about pushing for a change in banking culture as it is about technological innovation. Banks should seize this opportunity to rethink their culture and governance model to become more like a startup — nimble, constantly experimenting and iterating, and launching products quickly — while delivering production services in a resilient environment.

However, innovation cannot be driven by the CIO alone. Though the CIO has a role of significant influence, innovation must also be within the CEO's purview. As banks look to remain relevant in an increasingly competitive digital environment, every department needs to look for opportunities to innovate and drive digital transformation or be left behind.

As technology pushes the industry forward, banks must evolve their digital capabilities to meet changing customer needs and expectations. By using a three-stage approach that embraces agile innovation and pushes for change throughout the banking organization, the CIO can help drive the bank to new heights of success. ■

> “Innovation should be distributed across all key stakeholders in the organization. It's not only the CIO's responsibility, but also that of the CEO.”
>
> **— Safwan Zaheer**

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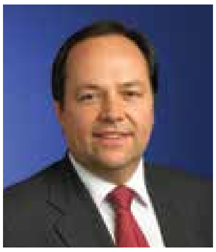
Seizing the open banking advantage

John Hallsworth, KPMG in the UK
Oliver Kirby-Johnson, KPMG in the UK
Jürgen Wagner, KPMG in the UK

John Hallsworth



Oliver Kirby-Johnson

Jürgen Wagner

As the deadline for PSD2 looms, are banks looking beyond compliance to create winning commercial strategies?

European banks have their hands full preparing for the European revised Payment Services Directive (PSD2) and the UK's Open Banking Standard. Compliance is clearly a top priority, to ensure they give third parties access to customers, while maintaining data privacy and cyber security, and preventing fraud and financial crime.

As they work towards the January 2018 deadline for PSD2, IT professionals have been busy getting the systems infrastructure into shape to accommodate the new standards. This involves building and testing APIs, and making appropriate changes to payment processing, ledgers, anti-money laundering and sanctions screening, reconciliation and reporting.

In such circumstances, it's perhaps understandable that we've heard relatively little about how banks plan to defend their market positions against new competitors, and even less about their strategies for launching new products and acquiring new customers. Many types of new entrants could conceivably emerge, such as peers, challenger banks, retailers, fintech startups, and new technology entrants like Google, Apple and Facebook. Any or all of these organizations have the chance to disrupt the market by giving bank customers a better payment experience, or by using account information to provide targeted offers and enticing new lifestyle-related services.

These actions are serious threats to customer loyalty. To succeed in this new world, where data and, possibly, customers are shared, banks need to look beyond compliance, to consider how they can best compete and, ultimately, innovate with new products and services.

> **Comply:** create and implement a regulatory action plan.
>
> **Compete:** defend your ground against new and existing challengers.
>
> **Innovate:** gain a competitive edge by seizing new market opportunities.

Responding to the competitive threat

Given the wide range of potential new players, banks should be aware of the key risks and carry out a robust competitive analysis. A comprehensive scenario plan can identify the main emerging players, their likely products and tactics and the customers they're most likely to target to assess the impact on the current business and on future strategies.

It's particularly important to gain a clear picture of the various segments within the bank's customer base, to understand their behavior and motivation, and to run scenarios based upon their anticipated responses to open banking and the bank's products. One obvious example is older versus younger customers, where the latter are likely to be more digitally literate and willing to share data with numerous different organizations, and, therefore, may be more easily tempted by new providers promising a simple-to-use 'digital wallet' Other contrasting segments that may have differing needs are house owners and renters, salaried employees, freelancers, and members of the so-called 'gig' economy and urban versus country dwellers.

Any defensive product/marketing strategy has to address the needs of these different groups in a bid to avoid attrition. Banks already know a great deal about customers' spending habits and will have segmented them in various ways and targeted appropriate products. As new opportunities arise from open banking, they have a great opportunity to further fine-tune products and tailor marketing programs — like, for instance, rewards-based incentives based upon spend, or premium/basic services.

Innovating for success

Curbing competitors' attempts to steal your customers is just the first part of a strategic response. Equally important, if not more so, is an assessment of potential opportunities arising from open banking.

Open access to banking information isn't just a threat; banks can also find out more about their own customers' spending with other banks and credit cards. This information can be used as part of an advanced digital wallet service, where customers access all their different accounts via a single, bank-branded smartphone app. At a glance they can view budget and spend analytics, access all accounts and see their current balances, receive alerts of upcoming payments due and pay bills. Fintech provider Moven, which partners with a number of banks, has recently come up with a new app that uses AI to enable the bank to learn and adapt to customer habits in real time.[5]

Rather than go it alone, banks may well choose to partner with fintech startups and/or invest in incubators to gain the agility to get such services out into the market quickly.

Again, any new products and services require strong business cases that evaluate channels, marketing budgets, pricing, costs, revenues and take-up to predict future income streams. Such cases should consider a range of scenarios including competitor behavior, consumer behavior and uptake, and economic factors like Brexit.

Towards a new type of customer relationship

The situation facing banks is not dissimilar to the impact of deregulation of industries like energy, telecommunications and transport, where greater consumer choice has driven an intense battle for customer loyalty, and where some of the incumbents have succeeded by changing and adapting to new challenges.

Historically, banks have had complete control over their customers' transactions and associated spend information. PSD2 and open banking may take away this advantage, but, conversely, also bring a unique opportunity to know even more about customers. With a renewed focus on relationships and service, banks could build on their traditional role as guardians of consumers' finances.

Three key questions for banks

1. **Comply.** Do you have a comprehensive regulatory action plan covering PSD2 and the UK's Open Banking Standard, incorporating full systems and data requirements?
2. **Compete.** Do you have a defined defense strategy supported by appropriate operations to enable you to avoid large-scale customer disintermediation?
3. **Innovate.** Do you have the resources and the analytical capabilities to conduct a major assessment of opportunities? And are you ready to align your operating model and technology to these new opportunities, possibly in partnership with one or more fintech? ■

SME and corporate market opportunities

Small- to medium-sized enterprises (SMEs) may be another area of opportunity arising from PSD2. Accessing and analyzing spend data across all of a customer's accounts and connecting other available information, could provide a platform for offering enhanced services.

And with their complex transactional history, larger, multi-banked corporations may also benefit from providers that can give them sophisticated analyses of their spending behavior, possibly to access purchasing economies of scale and other benefits.

MineralTree, an accounts payable and payment automation solution provider operating in the business-to-business space, has recently announced a partnership with American Express to provide Amex's business customers with a platform that incorporates corporate card expenditure into their accounting workflows.[6]

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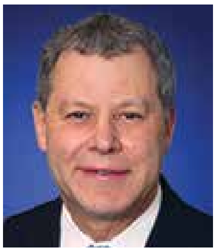
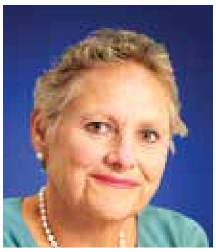
[5] *Moven builds AI into latest app upgrade,* Finextra, 14 September 2017.
[6] *American Express and MineralTree Announce Partnership to Help Streamline B2B Payments,* American Express press release, 1 August 2017.

Navigating the impact of geopolitical change on banking regulation

By Judd Caplain, KPMG International
Fiona Fry, KPMG International
Simon Topping, KPMG China



Judd Caplain



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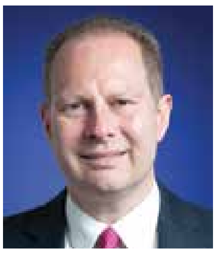


Simon Topping

The election of US President Donald Trump, the UK's vote to leave the EU, the backlash against globalization, the drumbeat of nationalist rhetoric worldwide and growing uncertainty about security in Asia driven by the actions of North Korea — a flurry of geopolitical change and political upheaval is raising fundamental questions about the potential impact on banking industry regulation. With such uncertainty on the global horizon, how can banks prepare for the future?

The new world order that appears to be emerging signals a focus on protectionism and the sovereign rights of individual countries at the expense of global relationships.

The outlook in the US under President Trump is for the repeal of numerous financial industry regulations. This includes provisions enacted within the Dodd-Frank financial reform legislation in response to the 2008 financial crisis during the Obama administration. That sweeping law was designed to decrease risk and enhance stability in the US financial system, but the Trump agenda is to replace parts of Dodd-Frank with legislation offering 'regulatory relief to the banking industry'.

> A flurry of geopolitical change and political upheaval is raising fundamental questions about the potential impact on banking industry regulation.

In the UK, meanwhile, Brexit negotiations are progressing slowly and the prospect of the UK leaving the EU continues to send shockwaves through the financial sector and beyond amid the prospect of new economic rules, relationships and tariffs. Fundamental changes to business models may arise from the post-Brexit location strategies of financial institutions.

The shifting and highly unpredictable environment is creating uncertainty among global banks that are scrambling to identify what the future might hold on the regulatory front. What can banks expect for the time being? We look for three key conditions to prevail amid today's volatile environment:

1. **High expectations on banks.** Banks can be certain that regulators will continue to maintain high expectations and intense scrutiny on the industry. That should not be surprising for a global industry that has paid an estimated USD160 billion in fines since the financial crisis erupted 10 years ago. Scrutiny by regulators has been intense and it will remain exceptionally high as regulators sustain the clear message that misbehavior will not be tolerated and that banks must do their utmost to comply with stringent regulations implemented over the past decade and still being implemented. Regulation can no longer be seen as an issue separate to the business; the key to success here will be effective 'horizon scanning', which aims to identify the impact of new requirements, and consider impending regulatory change as part of strategy development and business planning.

2. **Greater focus on bank conduct and culture.** Beyond high expectations and continued scrutiny, look for a broader focus by regulators as they move beyond enforcement and course-correcting following the conduct issues that have emerged in recent years.

   Regulators will place greater emphasis on governance and compliance, and on the need for banks to maintain highly reliable infrastructure and controls. Regulators will certainly expect financial institutions to be focused on and efficiently managing any new risks and challenges emerging amid rapid technological changes and the emergence of new business models.

   Regulators' focus will turn from the traditional retail banking and insurance products to investments, savings and pensions, driven by concerns about changing demographics and ageing populations in many countries. They will also focus on the fairness of banks' commercial lending practices, in particular in the SME market.

3. **Bank 'safety' is a leading priority.** Thirdly, the industry can expect continued emphasis on the need for financial organizations to keep their capital safe. This will include increased reliance by regulators on 'stress testing' and recovery and resolution planning — creating 'worst-case scenarios' for which banks will be required to provide detailed strategies, responses and solutions. Regulators will expect banks to be able to articulate exactly what will happen if these events occur, linking their responses directly to their operations; theoretical plans will not suffice.

   For example, how would a major financial institution respond in an economic environment marked by a 10 percent jump in unemployment combined with a sudden leap in interest rates and stalled GDP growth? Banks will need to continue to demonstrate in this mock scenario the potential impact on their capital and whether they could continue paying dividends, making acquisitions, sustaining the rate of lending and maintaining services. Stress testing to keep the banking system safe is something the industry can continue to expect the same of in the future.

'Three lines of defense' to navigate today's uncertainty

Over the past decade, risk management has tended to be 'piecemeal'. As they navigate volatile conditions, banks will be well advised to adopt or maintain a holistic, integrated approach to managing risk and uncertainty. This should include ongoing emphasis of the 'three lines of defense framework'.

> Beyond high expectations and continued scrutiny, look for a broader focus by regulators as they move beyond enforcement and course-correcting following the conduct issues that have emerged in recent years.

This framework is designed to help organizations to:

— clearly identify the roles and responsibilities of their business unit (first line)

— practice ongoing risk management using standard-setters or risk-oversight groups that are responsible for establishing policies and procedures and bringing independent challenge (second line)

— sustain effective risk-management activities via independent assurance providers who report independently to the board or the board's audit committee (third line).

Properly implemented, the three lines of defense will create dialogue and analysis that prevent banks from overlooking emerging risk that could ultimately cause financial disaster, while also prompting banks to effectively manage ongoing risk across the organization.

In addition, businesses should implement dynamic operating models that they review regularly as the business evolves and as emerging technology enables new approaches to risk management.

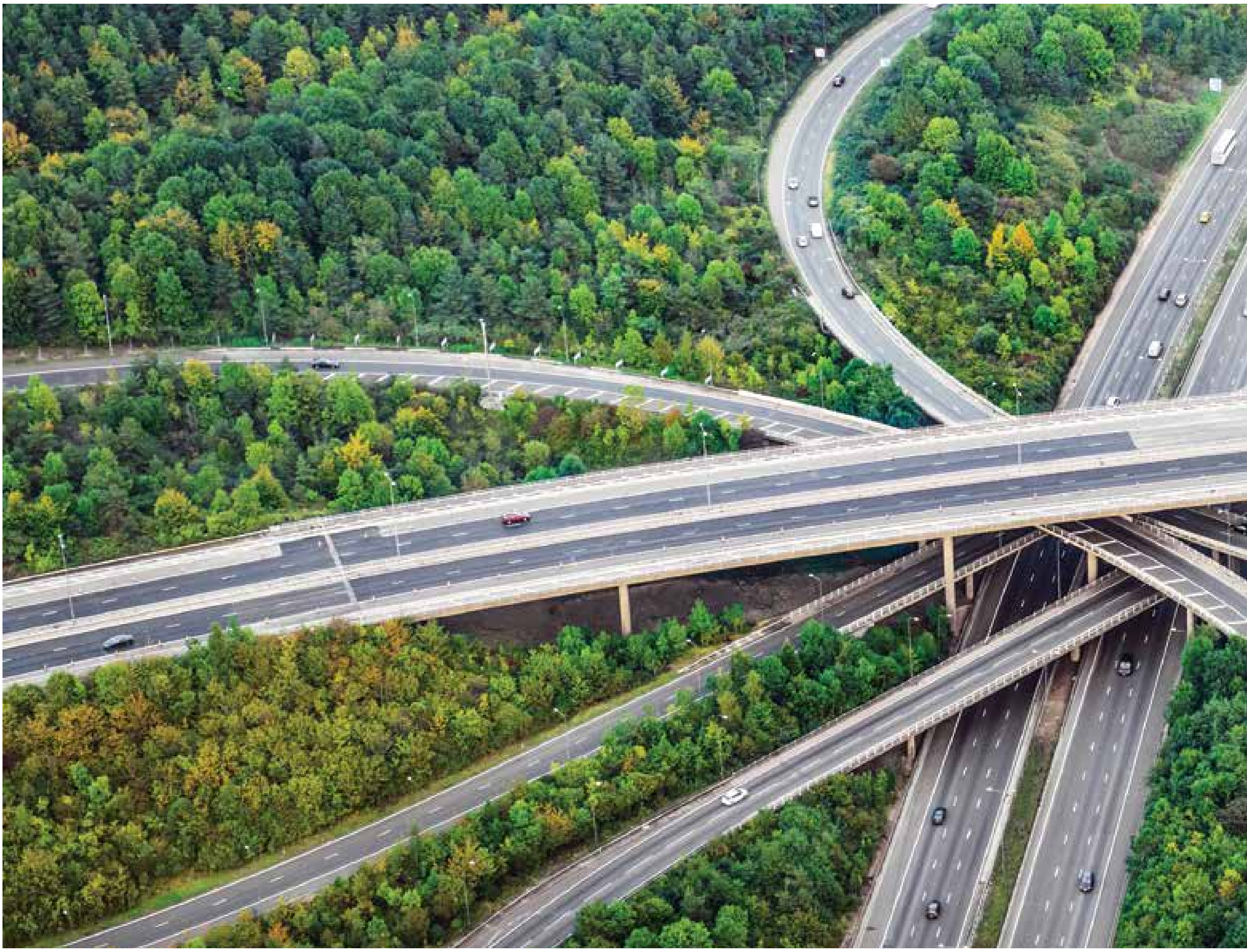
Preparing for potential 'spillover' in Asia

Prevailing conditions and the potential impact of geopolitical issues and regulatory changes affecting the US, UK and indeed Europe will have a spillover effect in Asia given the major presence of Western banks there.

On the question of regulatory change, it remains to be seen what transpires in the US or the UK and how specific changes might exert pressure to respond among regulators in Asia. For the time being at least, pending moves in the US regarding domestic legislation such as Dodd-Frank, for example, would have little impact in countries like China.

Brexit, however, could have a significant impact, in that many banks booking business in the UK will be assessing their base operations and examining whether to relocate bookings or operations out of the UK. Some banks are already looking at repatriating aspects of their Asian bookings back to Asia, specifically choosing Hong Kong and Singapore as booking centers for business currently in Europe. Many will also try to better anticipate future changes via horizon scanning — to try to identify the impact any new requirements coming out of the US and Europe could exert in Asian markets.

On a cautionary note, banks should remain wary of overreacting amid this uncertainty. We have seen many global banks already aiming to minimize risk



and protect capital by maintaining business in their domestic markets while divesting non-core businesses or reducing or limiting overseas activity and expansion. There has been considerable pressure of late, particularly among European banks, to 'look after' their home market first.

But these banks need to tread carefully as they also risk losing future profitability and growth in Asian markets that are profitable and promising steady growth. It's worth noting, that while Western banks continue to recover from reputation damage following the 2008 crisis, major global brands remain well-trusted among the Asian market's customers, investors and even regulators. The caveat to global banks today is to maintain current and future success prospects in Asia, rather than holding back operations and failing to capitalize on current and future growth opportunities in nations such as Hong Kong, Singapore, Thailand, Malaysia and the Philippines.

Looking forward to growth and expansion

While we can anticipate continuing change and uncertainty on the global scene, banks should maintain a strategic, holistic approach that includes a keen focus on meeting high regulatory expectations and scrutiny; enforcing appropriate codes of conduct and sales practices; and ensuring the integrity and safety of their infrastructure and operations. Forward-looking banks will also do well to remain proactive in these times by embracing real growth and expansion opportunities that arise along the way while balancing with the regulatory requirements implemented since the financial crisis to improve the safety and soundness of the banking system. ■

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Balancing cost, control and quality

Tech-enabled finance operating models help banks manage competing demands

Aris Kossoras, KPMG in the UK
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Aris Kossoras

Denis Reynolds

While bank finance departments have pursued ambitious and often highly-targeted transformation projects over the past decade to satisfy competing regulatory, management and shareholder expectations, they have struggled to keep up with ever-shifting demands. But best practices among global banks, revealed in the *KPMG Banking Finance Operating Model 2017 — A Comparative Analysis*, suggest that there is no single path to success. Rather, a combination of complementary strategies can shape flexible finance operating models, enabled by emerging technologies that help finance balance its governance, value preservation and value creation obligations.

The buck stops with finance

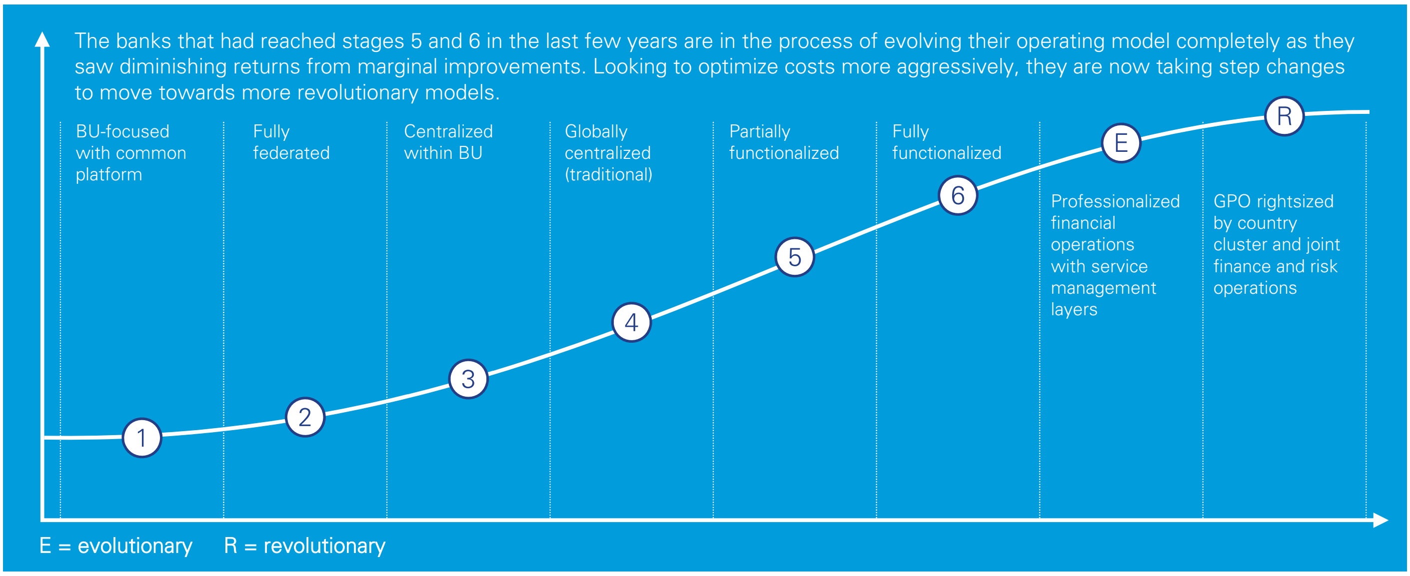
A 2014 KPMG survey of top CEOs globally across all sectors revealed how senior leaders increasingly expect their CFOs and finance teams to help create a global competitive advantage for their organizations, leveraging forward-looking data and analytics to deliver value-added insights, beyond traditional finance deliverables.[7]

This is certainly the reality facing bank CFOs and finance departments that, after years of helping deliver impressive profits and bold acquisitions to become global or universal banks, suddenly faced new challenges post-2008. Sweeping new regulations required bank finance teams to perform both intensive local, regional and global compliance activities. In tandem, challenging market conditions pressed the banks to operate more efficiently and reap the benefits of globally-integrated structures, putting large finance departments under scrutiny to do more with less.

In response, bank finance functions shifted from their traditional federated operating models to create more standardization across the business units that finance serviced. They ramped up their investment in back-office capabilities, with the aid of transformation initiatives such as establishing centralized offshore units and introducing global process owners to improve consistency and efficiency across end-to-end processes, while maintaining control.

While these initiatives have provided the banks with a boost in efficiency, many have reached the point of diminishing returns. Or, upon implementation of these multi-year transformation projects, finance leaders discovered that the planned results are no longer relevant to their shifting operating landscape and bank priorities. They are also finding it hard to understand — let alone keep pace with and appropriately leverage — technological innovations that are revolutionizing ways of working.

[7] *The view from the top: CEOs see a powerful future for the CFO*, KPMG International, 9 December 2014, https://home.kpmg.com/xx/en/home/insights/2014/12/the-view-from-the-top.html.



As a result, KPMG's 2017 survey revealed that leading banks continue to target efficiency and productivity gains through several main approaches:

Striving to align data and operational aspects of finance and risk organizationally.

Substantially extending the centralization of finance operations capabilities and by formalizing global process owners into 'business-as-usual' (BAU) structures.

Increasingly investing in key areas such as data, people and intelligent automation.

Survey respondents shared a desire to reduce or keep finance costs as a percentage of total operating costs between 2 percent and 3 percent. Most banks surveyed have either achieved or are close to achieving this but they have taken very distinct journeys to do so. Front-runners are now dropping below the 2 percent threshold.

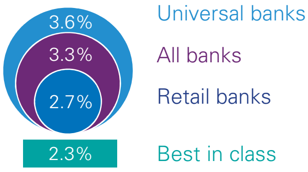
We also see a new focus on building a more flexible and agile operating model that can meet local demands without losing the benefits of global integration. To do so, rather than attempting to reach a fixed end-state for the finance function, they are investing in key capability pillars, creating a flexible framework and making change management part of the BAU culture.

Automation is no silver bullet to reduce cost of finance

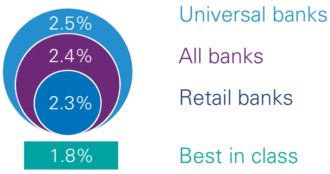
Most global banking organizations are nearing or have already reached a level of saturation using the offshoring model and lean methodologies. Many finance functions have also embraced automation as the tonic to their challenges. While there has been

Cost of finance (average by category)

Cost of finance as percent of operating expenditure



Direct cost of finance as percent of operating expenditure



Front-runners' strategy

Banks that have a lower cost of finance have invested more in integrating their data architecture, established true global process ownership and have an offshoring ratio greater than 40 percent.

What is critical to get right?

1. **Invest in capability.** A CFO must build finance teams with a fungible set of capabilities so that resources can be easily moved across value protection, value creation and governance activities as the bank's focus changes.

2. **Allow freedom within a framework.** When looking to balance strategy drivers across market and group finance, the model needs to make allowances for local flexibility but under a set of principles applied consistently across all regions and markets.

3. **(Global) process owners as arbitrators.** Align processing and quality control under horizontal process owners to drive end-to-end accountability, effectiveness and efficiency of processes between shared services, business units, and central group finance.

4. **Embrace disruption and concentrate on data.** Pivoting with advancing technologies, such as intelligence automation and cloud, to deliver operative data.

5. **Change management as a BAU capability.** Take the best people on the journey through change management strategy, which will look to develop and implement tools and operating models to successfully adapt to change.

considerable push and hype to introduce robotics process automation, front-runners in this space have consistently failed to deliver their desired outcomes, particularly in terms of achieving real cost savings.

The reason for these lackluster results? Most projects have concentrated on automating micro-processes and eliminating piecemeal individual tasks, rather than addressing the end-to-end finance process using a combination of technologies rather than just robotics.

Banks have usually run pilots to showcase how a single robot can work but they have not put sufficient thinking into the capabilities required to scale and industrialize effectively and efficiently. In finance, we see the benefits of introducing intelligent business process management (BPM) solutions to orchestrate and standardize the process before it is robotized, acting as a digital platform where different types of automation can be introduced to the process seamlessly, and performance of the process can be monitored and managed end to end. It is critical to monitor how human and digital parts of the process weave together and construct portfolio solutions that go beyond robotic process automation (RPA) and integrate rules engines, machine learning and analytics to solve complex issues.

Strategic automation is not a 'side of the desk' exercise, and it is not about building bots. New technologies such as robotics, machine learning and AI are here to stay and as such, the organization and each function needs to approach them strategically, in the context of the wider functional strategy.

Our survey shows that the banks that achieved the greatest efficiency gains have made sustainable and transformative 'lifestyle changes' to their finance operations rather than following basic 'liquid' diets to achieve short-term cost reductions. Such a sustainable diet includes a combination of 'courses' encompassing not only technology investments and automation but also process redesign, workload balancing, report consolidation and organizational restructuring, among other tactics.

'Courses' for a sustainable diet

Process	Process standardization to enable cross-team resource pooling
	Process redesign to eliminate waste and duplicative review activity end to end
	Upstream process/data improvements to reduce validation checks
Capacity	Idle time analysis (leveraging workforce analytics data)
	Workload and delivery timeline management to achieve smooth peaks
	Load-balancing between processing locations
Demand	Report consolidation
	Report elimination
	Self-serving opportunities
Automation	Data input standardization and workflow
	End user computing (EUC) consolidation
	RPA/cognitive automation
Organization	Spans and layers
	Utilities
	Structure integration between on/off/nearshore teams along global process owner (GPO) lines
Sourcing/location	Stretch offshore coverage of quality control/detailed analysis
	High-end outsourcing and bilaterals
	Use of new locations within wider bank location strategy

There is a common theme among the surveyed banks that have achieved the greatest finance efficiency gains: they began by identifying their desired outcomes before diving into a specific solution, be it offshoring, outsourcing or introducing robotics.

Enhancing control by integrating finance and risk

New regulatory requirements and accounting changes, from stress testing to IFRS 9, are pushing the integration of finance and risk functions within banking.

Although the idea of combining the efforts of these separate departments can be traced back to the first waves of post global financial crisis regulation, progress in developing an integrated model has been slow. Resistance among the departments, doubts about data quality and challenges aligning incompatible systems often stunted those lofty goals.

Today, we see tangible efforts at a number of leading banks to consolidate finance and risk processes and data, through the creation of centrally-led networks, with concentrated strategy and governance and distributed operations, the creation of joint accountability held by finance and risk, and through the use of common data elements, such as the creation of common data and common process utilities under a common governance framework.

We have also witnessed how several best-in-class banks have established a separate organizational unit in which the finance and risk departments are 'customers' of the independently managed unit, ordering services as needed or accessing advice on demand. While the regulatory demands have hastened this shift, establishing these practices into business-as-usual is still evolving.

Driving strategic advisory capabilities in finance

As if the control and cost pressures are not enough for a bank CFO to confront, keep in mind that CEOs want their finance functions to provide greater value creation, to aid strategic decision-making, financial and investment planning.

Pivoting an established finance team to perform this value-added work is no easy challenge, in light of industry benchmarking data that suggest the number of finance business partners should be reduced, not increased, to achieve efficiency targets.

In addition, as indicated by our banking survey respondents, the majority of institutions believe that their business partnering, planning and analysis functions are less mature than their core controller and accounting functions.

These seemingly contradictory issues suggest that a sequenced, multi-phased approach must be taken to bolster finance value creation over time. For example, technology investments may be required to eliminate lower-value workload, to shift transactional work to finance shared services units or add more self-service and automated reporting functionality.

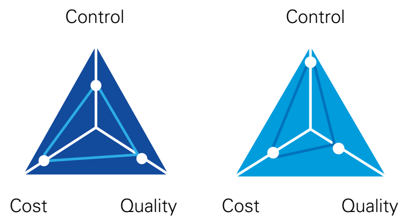
Since considerable human capacity could be freed up by these activities, the corresponding cost savings could be redirected to investments in intensified training to upskill finance professionals for advisory roles and sharpen their technology, communications and stakeholder management skills. Finance functions could also ramp up their efforts to recruit and retain top-notch, next generation financial talent with the requisite skills, based on in-depth target competency frameworks.

As with the earlier discussion of cost reduction initiatives, it's essential that these people development programs are accompanied by corresponding process re-engineering, workflow redesign and role mapping, based on the finance function's service delivery vision.

By doing so, the banks could transition many existing finance roles from transactional work focused on control and value protection to positions that emphasize strategic analysis, outcome-based planning, and specialist 'decision engineers' who gain recognition as real finance business partners.

However, it is noteworthy that one of the banks we surveyed has decided to go against the grain and refocus the role of finance on what it has traditionally done best, that is being the best they can be at value protection and control. They have made a conscious decision to hand business partnering, value creation activities back to the business. It is now up to the business to serve itself with regards to management reporting and analytics, after years of claiming they have been overcharged by finance. We expect that the business might quickly find it difficult to develop the necessary finance competencies and acumen at the right price point to justify this shift.

Drivers of finance strategy: A continuously evolving journey



There is a differentiation in the finance strategy of retail/commercial and universal banks. This will need to evolve as the maturity level of the banks change and as growth is seen across the global banking industry.

Key

Retail/ commercial bank

Universal bank

Technologies to balance cost, control and quality

Although the to-do list heaped upon bank CFOs may appear overwhelming, there is definitely reason for optimism. While the goal of simultaneously bolstering control, cost and quality seemed impossible just a decade ago, recently arrived technology means that the three points on the finance delivery triangle are no longer mutually exclusive.

Today, cloud-based technologies can be implemented much faster than traditional on premise installations that lasted multiple years and were hugely expensive with changing specifications. The cloud has lowered the total cost of ownership by addressing fundamental areas of the infrastructural cost of finance systems. This allows for an accelerated payback, making it possible to redeploy resources quickly to another area of the finance service triangle.

Although these efforts must be prioritized or carefully sequenced, balanced investments in people, data and information — under the umbrella of a flexible finance operating model — can enable a bank to advance each point on the finance triangle without compromising the others. Although our survey shows that there is no one formula to success, the emerging ability of CFOs to experiment with various data, technology, human and process levers indicates that it's an exciting time for finance, to help meet the banking industry's current and unfolding challenges. ■

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Embracing the cyber insurance opportunity

Significant rewards await forward-looking insurers that get it right

Paul Merrey, KPMG in the UK
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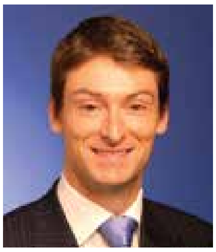


Paul Merrey

Matthew Martindale

Digital technology in today's increasingly interconnected world is forging perilous new threats to businesses everywhere. AI, the Internet of Things, robotics and augmented reality are among the rapidly emerging innovations unleashing not only exciting new levels of communication, automation, mobility and convenience but also unprecedented potential for cyber-related disaster.

Businesses of all sizes are struggling to identify, assess and respond to an explosion of digital threats and targeted cyber attacks that could paralyze their operations at any moment. From tangible assets such as property to intangible assets that include intellectual property (IP), customer data and reputations, organizations in every sector are becoming dangerously exposed to an array of emerging cyber risks.

Financial services and retail businesses, for example, are already a focus of organized cyber crime, while ransomware and distributed denial-of-service attacks are increasingly being used against organizations in industries such as healthcare, media and entertainment. Public sector and telecommunications businesses, meanwhile, are considered highly susceptible to espionage- or terrorism-related cyber attacks.[8] Digital technology has also opened the door to business system failures that can inflict massive physical damage, accidents and theft.

As organizations are quickly learning, sometimes at high costs, cyber risk is now much more than a data breach and the nature and sophistication of potentially catastrophic cyber attacks keeps evolving.

Cyber crime is high on the agenda of business executives, and they are making progress in implementing security measures. KPMG's 2017 Global CEO

[8] *Closing the gap — insuring your business against evolving cyber threats*, KPMG in the UK, DAC Beachcroft and Lloyd's insurers, June 2017.

Outlook reveals four in 10 CEOs (42 percent) feel their organization is now adequately prepared for a cyber-event, compared to just 25 percent in 2016. As a result, the issue ranks fifth among business leaders, versus number one in last year's survey.[9]

> As the scope, frequency and impact of cyber-related incidents soar, huge new opportunities exist for insurers positioning themselves for growth in the cyber insurance market.

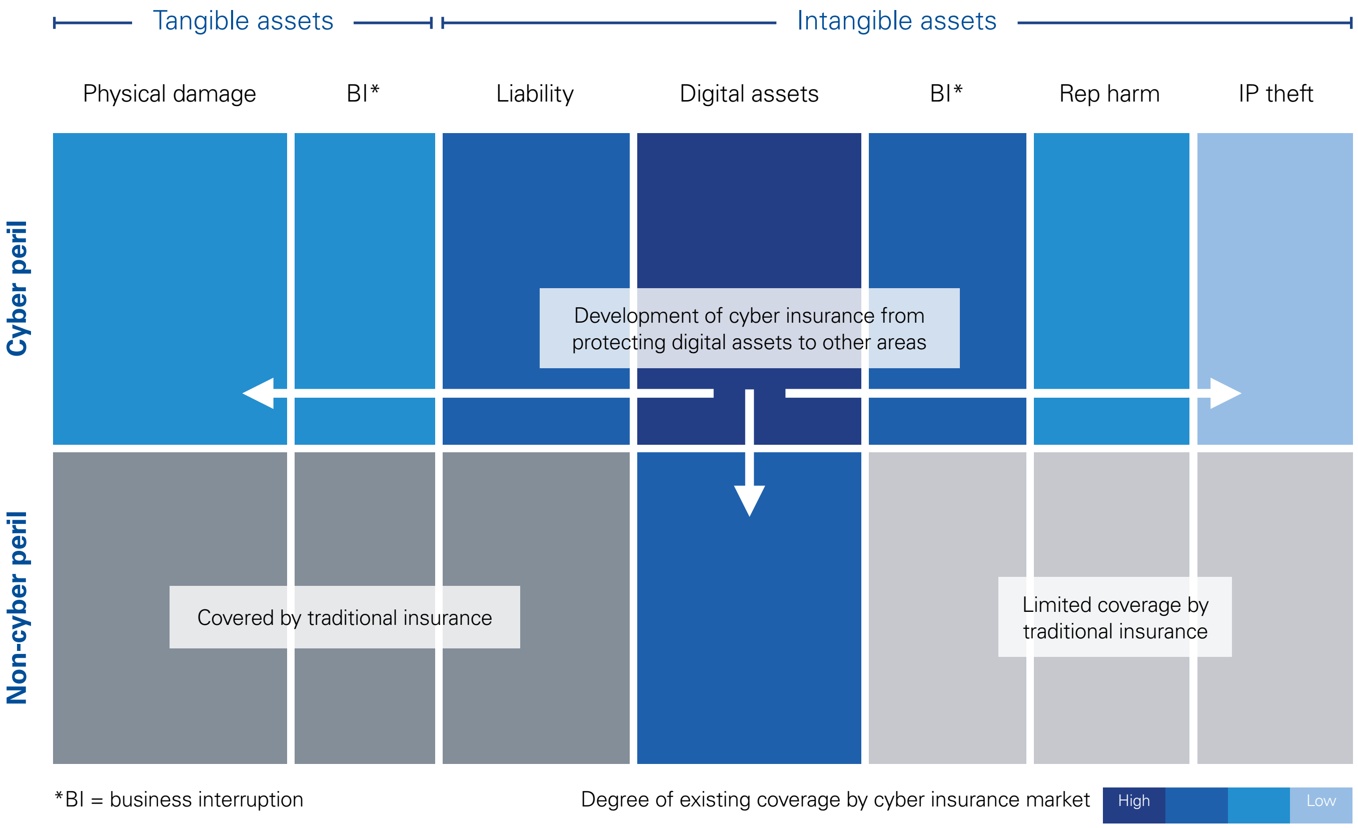
We see strong signals that many CEOs are moving beyond a generic view of cyber risk to develop risk, resilience and mitigation plans in the context of the parts of their business that could be most seriously affected. The risk remains very much top of mind and the need for vigilance remains high. Cyber insurance is an important way for CEOs to protect their organizations.

Cyber insurance and closing the gap

Unfortunately, as cyber risks and attacks proliferate, many organizations and their insurers are discovering alarming gaps in the coverage provided by traditional insurance policies. Cyber insurance has traditionally focused primarily on digital assets such as customer data. Now, the global industry is starting to respond to the changing market by expanding into adjacent insurance lines across both the intangible and tangible asset space — a trend that will no doubt continue as the industry matures.

As the scope, frequency and impact of cyber-related incidents soar, huge new opportunities exist for insurers positioning themselves for growth in the cyber insurance market. For those that get it right, the rewards will be significant in a market that is predicted to be worth more than USD10 billion in global premiums by 2020.[10]

Cyber insurance is expanding into adjacent areas



Source: *Seizing the cyber insurance opportunity*, KPMG International, 2017

[9] *Disrupt and Grow: 2017 Global CEO Outlook*, KPMG International, June 2017, kpmg.com/ceooutlook.
[10] *Seizing the cyber insurance opportunity*, KPMG International, 12 July 2017, https://home.kpmg.com/xx/en/home/insights/2017/06/seizing-the-cyber-insurance-opportunity.html.

The immediate challenges for insurers include the need to enhance their cyber capabilities, unravel the complexity of modeling and pricing, and redefine their organizational structures. Cyber insurance has a unique opportunity to lead the crucial shift from products to innovative new solutions that create new advantages for insurers and customers alike. Forward-looking insurers are evolving their focus from property and assets coverage to providing a full spectrum of services across these three key categories:

1. **Understanding risk.** Insurance providers are working with technology companies to leverage their deep know-how in customer use cases and software and hardware vulnerabilities.

2. **Preventing risk.** Businesses remain slow to implement preventive measures due to low awareness and recognition of the value of such services — even when offered free of charge. Incentives could drive up implementation in this area. Ultimately, a move towards preventative services is likely to lead to a decrease in overall premiums and claims.

3. **Responding to cyber incidents.** Insurance players have already established partnerships to provide a variety of cyber incident response services. Customer take-up rates for these services have been relatively low but industry participants expect the industry to see expansion in this area as customer awareness of the added value gradually grows.

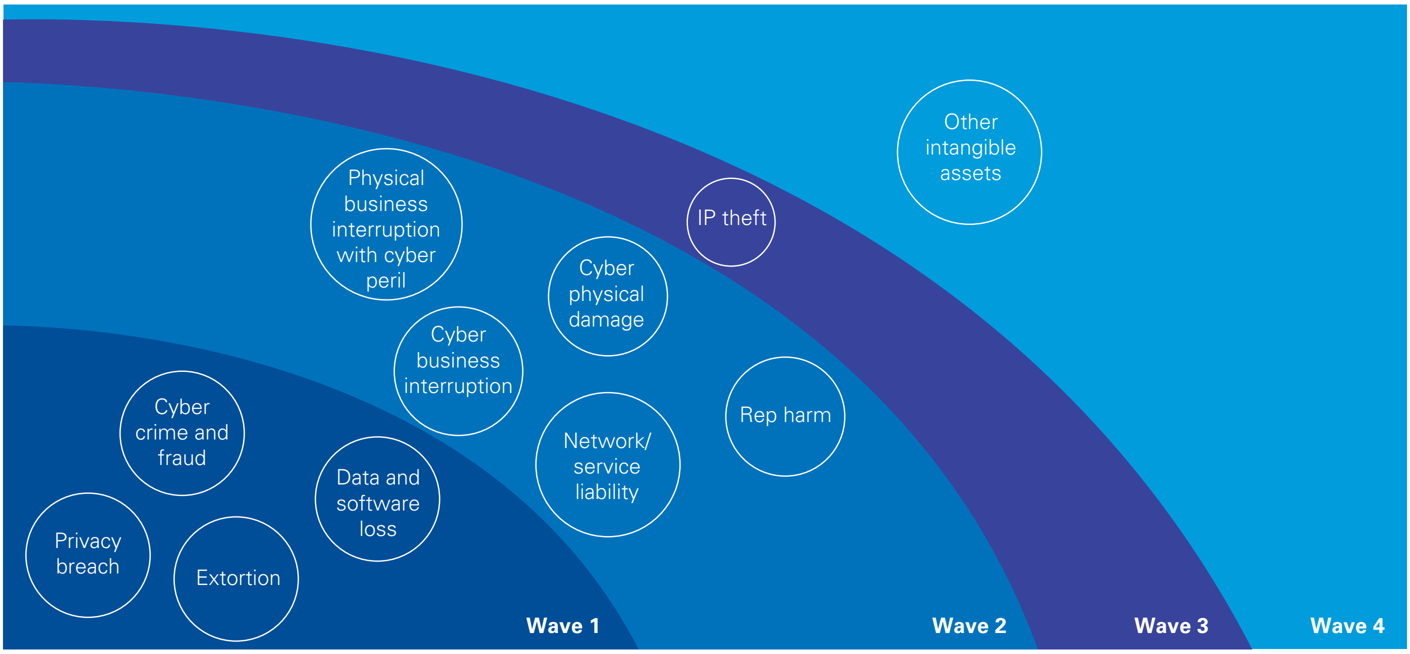
A 'wave' of opportunity

As insurers seek to expand coverage and introduce innovative solutions, industry experts anticipate that the development of cyber insurance is about to undergo several critical 'waves.' From an initial focus on digital assets, the sector is expected to expand to encompass a range of new products covering other asset classes, as well as addressing non-cyber perils in traditional insurance. Each wave represents an increasing level of complexity and insurers have no time to lose in transforming for the future.

Wave 1: Strengthening core digital asset propositions with crisis management

Cyber propositions that focus on losses related to digital assets — such as data breaches, cyber crimes and data losses — are likely to remain the core of any proposition set. But as competition increases, players face growing pressure to differentiate their services. That makes Wave 1 a critical period, as success should help insurers not only establish competitive advantage in the core cyber insurance market but also provide a platform to progress through subsequent waves. The focus will need to be on developing integrated crisis management solutions that improve customer experience, drive top-line growth, generate market intelligence to model risk more effectively and enhance underwriting capability.

The four waves of cyber insurance development



Wave 2: Enhancing risk modeling to expand coverage to assets with cyber triggers

As risk-modeling capabilities evolve, insurers should be able to expand their offerings into other cyber areas. In the short term, cyber insurance will diversify into areas such as business interruption and network and service liability. Business interruption is a particularly critical area, with most businesses reporting some business interruption loss following a cyber incident. In the medium- to longer-term, as risk-modeling capabilities improve, insurers can start addressing losses to other intangible assets caused by a cyber peril, arising from issues like reputational harm. While these areas are more complex and may take longer for insurers to add to their portfolio, they could become the new sweet spot for cyber insurers.

Wave 3: Insuring the 'uninsurable'

As the traditional cyber insurance market becomes more saturated, and broad crisis management solutions become the new norm, insurers need to push the boundaries of risk modeling and develop new products serving untapped areas. One such product could be IP theft insurance. This could be addressed by developing an innovative parametric cover: instead of measuring the actual loss caused by an IP loss, the insurer and the insured would agree on a specific payment to be triggered in case of a loss event, irrespective of the value of the loss.

Wave 4: Transitioning from cyber to intangible asset insurance on non-cyber perils

Some market participants see cyber insurance as closely related to broader intangible asset insurance. A natural future evolution of cyber insurance could, therefore, include damage to intangible assets with non-cyber perils, such as reputational harm due to product recall, which is rarely covered by traditional insurance. To succeed, insurers would need to develop new capabilities, build a better understanding of non-cyber perils and leverage their crisis management services.

The insurance industry is at the threshold of a major shift that poses real challenges, but the payoff promises to be significant for insurers willing to rethink strategies and offerings for the digital age. ■

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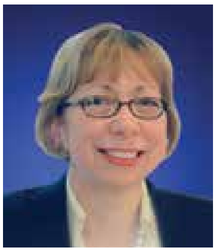
> Cyber propositions that focus on losses related to digital assets — such as data breaches, cyber crimes and data losses — are likely to remain the core of any proposition set.

Transcending the technical: The real business impacts of IFRS 17

Mary Trussell, KPMG International
Paul Brenchley, KPMG in Singapore



Mary Trussell

Paul Brenchley

As insurers prepare for IFRS 17, some are starting to recognize that the new accounting standards will have a significant impact across many areas of their business.

By now, most insurers should already be thinking about the practical implementation of IFRS 17. Accounting and actuarial teams have read the new rules, begun estimating the financial impacts and started creating their road maps to achieve compliance.

Insurers know that the shift to IFRS 17 will mean developing new accounting and actuarial policies and procedures and redesigned year-end reporting process, documentation and controls. They recognize that the new standards will require designing systems changes to perform new calculations, the collection and storage of new data and rigorous testing to ensure smooth adoption. For those that have completed an initial impact assessment, activity has started to pick up pace at an operational level. Many of these front-runners are deep in the tactical steps needed in order to be able to dry run results on the new basis ahead of achieving compliance by 2021— analyzing which of the available options is preferable in their particular circumstances, exploring how to mitigate volatility, working out how best to operationalize the requirements, probing matters of interpretation, and strategizing how best to use this opportunity to automate, streamline and standardize. Their executive teams have likely started to ask detailed questions about performance metrics and key performance indicators (KPIs) under the new standard.

Seeing the bigger picture

Yet, as management starts to dig deeper into the financial and operational impacts of IFRS 17, many are starting to uncover some unexpectedly wide business impacts and this is creating some concern in the executive suite.

For undertakings within the EU, IFRS 17 will have no direct impact on prudential capital. But for other companies one of the most acute concerns we are finding relates to the potential impact of IFRS 17 on future available capital. Depending on the linkage between local financial reporting and prudential regulation in particular jurisdictions, the new standards could, in some cases, alter the available capital, which, in turn, impacts the amount of free capital, that is available to support new growth opportunities, pay dividends and conduct M&A. Those with an eye towards their long-term growth strategy are understandably concerned and are looking to factor IFRS 17 metrics into their business planning.

It's not just those with ambitious growth plans and those that report their group results using IFRS that are taking a second and third look. Those with a global or multi-jurisdictional footprint are also concerned about how the shift to IFRS 17 will impact the dividend paying ability of their subsidiary operations. Planning future dividend flows and factoring this into the group's dividend policy and communicating this to investors will all be important — and require robust numbers ahead of time.

KPMG professionals have found that for some, the prohibition on recognizing 'day one' gains and the need to recognize losses on groups of onerous contracts will likely trigger important changes in product design and marketing. While the total level of profit will not change, the timing of its recognition will. This will be most significant for life insurers writing long-term business, where front-end loading of profit is commonplace. Already, some insurers are exploring how they might pivot their focus away from day one profits — and that has the potential to benefit consumers as well as the quality of earnings.

In matters of valuation, there is no absolute truth, only perception. We believe the shift to IFRS 17 will impact the perceptions of shareholders, analysts and regulators — hence has the potential to impact valuation multiples and the value of any new acquisitions. Those embarking on inorganic growth or those considering the potential sale of books of business will certainly want to understand how the new standards may influence longer-term valuations.

CEOs and executives should also have a personal interest in the impacts of IFRS 17. Most are tied into performance-based bonus arrangements that are informed by finance KPIs. Many are justifiably worried as the new standards will change a variety of performance measures, specifically those using existing accounting bases, such as their remuneration packages. Those who have started exploring the presentation of their financials on the new basis will understand the major task required to educate the business in how to explain, interpret and, indeed, steer results on the new basis.

Breaking down the problem

If these issues have been weighing on your mind, and even if some of these issues haven't yet raised their heads, don't panic. There is still time to turn IFRS 17 business issues into competitive advantage. The key is to be proactive.

For those organizations yet to start thinking strategically about the business impacts of IFRS 17, here are five steps you may want to consider:

1. **Create a cross-functional view.** Bring the directly impacted functions of accounting, actuarial and IT together with functions such as operations, marketing, distribution, product development and strategy, to create a holistic view of the potential impacts and strategies. Likely the effort will be led by the CFO and/or Chief Actuary, but the CEO and the board need to be informed.

2. **Understand the implications.** Work within the functions to assess how the business impacts will influence current and future operating and business models. Consider what you might want to change in order to respond to these impacts and how these can be used to create competitive advantage.

3. **Assess the impact for local reporting and the impact for capital and dividend paying capacity.** Explore your various potential scenarios under IFRS 17 and consider how these scenarios may impact your capital ratios. Over time, reassess the scenarios to reflect new information and interpretations or changes in your marketplace.

4. **Cross-check against your future strategy.** As the implications — both financial and operational — come into view, take the time to reassess your current and long-term business strategies and models to ensure these are being presented in their best light in the new world of IFRS 17.

5. **Talk to your stakeholders.** Once you understand how IFRS 17 will impact how you communicate your financials, spend time talking to your key stakeholders — first internally in the business and then investors, regulators, brokers, reinsurers, agent networks and employees — to help manage expectations and ensure the right story is being communicated.

KPMG professionals' experience, since the issue of the standard in May, suggests that one of the biggest risks related to IFRS 17 is that executives view it as a purely technical initiative owned by accounting and actuarial. Indeed, with major business impacts looming, those who are not planning ahead and thinking about the impacts of IFRS 17 may find themselves veering off plan. Or, in extreme circumstances, unable to meet commitments to shareholders, regulators and even customers.

Those thinking strategically about the business implications of IFRS 17 today should be the ones who are best placed to navigate the business impacts of the transition to the new standard in 2021. ■

> For some, the prohibition on recognizing 'day one' gains and the need to recognize losses on groups of onerous contracts will trigger important changes in product design and marketing.

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Aiming for new heights: Resuming the journey to the cloud

Lisa Heneghan, KPMG International
Gary Plotkin, KPMG in the US

Lisa Heneghan

Gary Plotkin

On the journey to cloud enablement, many insurers seem to have stalled. Reaping the immediate rewards of cloud in the back-office was relatively easy. Now the big challenge is to drive cloud enablement across the enterprise and — critically — into the front-office. The journey to the cloud is by no means over.

Insurers are no strangers to the cloud. Much like other large, complicated organizations, they were fairly quick to recognize the benefits of cloud enablement in the back-office. Adoption was fairly straightforward: back-office processes were clear and well-defined; the platform providers and enterprise resource planning (ERP) vendors were encouraging; and the risks were comparatively low. Not surprisingly, insurers rushed to take advantage of back-office cloud.

Yet, having won some important benefits from this early work, progress towards full cloud enablement seems to have stalled at the back door. Insurers seem quite comfortable moving their own data (and their employee data) into the cloud, but they have been much less aggressive with their customer and policy data and business processes. That means they are not yet realizing the true benefits that enterprise cloud adoption can deliver.

Lots of good excuses

There are many reasons that activity may have stalled. Part of the problem relates to the external environment. Most of the policy platform vendors have been very slow to shift their services to the cloud, preferring to stick to the traditional on-premises models. This has meant that, until recently, organizations have had little impetus to drive cloud into the front-office.

At the same time, insurers are conscious of increasing regulatory inspection and are concerned that greater cloud enablement might influence their risk profile. Concerns about customer and policy data being hacked are high, particularly for those carriers that sell cyber risk products and can quantifiably measure that risk. The recent hack at Equifax has raised concerns even further.

Complexity is another major issue. Shouldering a massive technology debt and hampered by an uncontrolled legacy environment, it seems few have a good grasp of their current technology estate and capabilities. In almost every case, they will need to do some heavy lifting to rationalize their assets before they can even start to think about moving more aggressively into the cloud.

But the bigger problem comes down to cost and benefit — it will take a lot of work and resources to move all of the front-office processes into the cloud; and the business case is not straightforward — it is incredibly hard to prove the specific ROI to support their budget requests.

Beyond cost take-out

Obviously, this is all very frustrating for insurance execs and the business who, for the most part, recognize the benefits that greater cloud adoption could deliver beyond the obvious cost take-out that comes from outsourcing key processes. The most valuable element they would realize from cloud is the improved flexibility and agility, and cloud adoption is a key foundation and enabler for an industry that must be increasingly customer centric. It is therefore critical that executives find their way through the budget challenges quickly and realize that cloud adoption can be instrumental to driving the change in operating model they need to succeed in the digital world.

> Just like any large transformation program, the shift to cloud enablement is not without risks.

Case study: Kick-starting the journey

We recently worked with a major international insurance provider to transform their valuation ecosystem through cloud enablement. The organization wanted to reduce their overall costs, speed and integration as well as improve their business flexibility at scale.

The organization had grown considerably over the past decade, which had led to a fragmented actuarial IT estate: more than 300 terabytes of data were spread across 25 different server farms that fed into almost 300 different actuarial models (each with separate data feeds flowing from more than 10 platforms) — this was hampering organizational agility and flexibility.

To start, the organization developed a robust business-led road map that recognized the potential risks and created the required agility to deliver flexibility at scale. Leveraging Microsoft's Azure platform, the organization developed a new state-of-the-art technology architecture that allowed it to leverage one integrated solution for actuarial modeling, data management and reporting, consistently, across the enterprise.

By assembling a 'cloud ready' solution, the organization was able to remove process bottlenecks in computing capacity and data processing. Processing time was reduced from multiple hours to less than 30 minutes. Critically, the shift also enabled the organization to centralize various software applications and data stores, simplifying their data and trend analysis. The cloud migration was a catalyst for rationalizing the multiple active versions of actuarial software, and for establishing central planning and control of version upgrades. Overall, performance increased, controls were strengthened, and actuarial teams globally were able to add more value to the business by taking advantage of the increased computing and data processing capacity to yield better analysis and deeper insights.

> The most valuable element insurers would realize from cloud is the improved flexibility and agility, and cloud adoption is a key foundation and enabler for an industry that must be increasingly customer centric.

Getting back on track

Based on KPMG member firms' experience working with insurers around the world and across sectors, we have uncovered six tips that could help insurers get their cloud journey on track:

1. **Drive the business to lead.** Cloud enablement is not an IT issue. It is a business opportunity. Indeed, the most successful organizations are those that start by understanding what they want to enable (for their agents, their customers or their organization) and how technology can help them achieve their goals. They are the ones that think about how they will use the systems before they invest in them. And they are the ones that bring the underwriters and customer journey leaders to the table to talk to IT about their vision for the future.

2. **Assess and manage the risks.** Just like any large transformation program, the shift to cloud enablement is not without risks. Costs may climb as the complexity of the task becomes clearer; new security protocols may be required; technologies could fail; and customers could reject the new services and solutions being offered. That is why the most successful insurers are those that take the time to fully assess the potential risks — and interdependencies — before creating their road maps or making fundamental changes.

3. **Consider the organizational change requirements.** The shift to cloud adoption in the front-office should unlock valuable new models, ways of working and innovation. That, in turn, requires organizations to think carefully about the impacts of wider cloud adoption. Beyond change management initiatives and programs, insurance executives should be thinking about how cloud enablement might allow them to achieve new levels of productivity and how they might leverage that productivity to drive future growth.

4. **Aim for flexibility and agility.** The idea behind cloud enablement should be to deliver increased flexibly and agility to the business, supporting continuous change and improvement. This requires organizations to rethink their own internal approach to opportunity identification, process modification and ultimately change adoption. From the creation of the road map through to the development of the specific cloud capabilities, leaders must focus on creating (or recreating) their organizations with a mindset towards a continuous journey and agile design principles.

5. **Start small and work up.** It is easy to get overwhelmed by the sheer size and complexity of the task. Rather than trying to build a complete, end-to-end road map that spans multiple years and technology horizons, executives may want to consider starting with smaller initiatives — such as peer hosting — before moving on to the more fundamental and transformative changes that must be undertaken.

6. **Start now.** Each insurer will develop a different road map depending on their business objectives, current tech environment and cloud capabilities. The challenge is to ensure that your road map is realistic and achievable; that you have the right capabilities and capacity to achieve your goals; and that you have the right measurements and milestones to deliver value along the journey. ■

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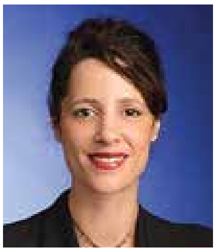
Insurers get practical about the customer

Gary Reader, KPMG International
Louise Portelli, KPMG in the UK

Gary Reader



Louise Portelli

Insurers already know that — to win in today's competitive environment — they must become much more customer centric. Yet many still struggle to turn their customer ambitions into reality.

Talk to any insurance CEO about customer experience and stress levels start to rise. Insurance CEOs are well aware that their organization's very survival depends on their ability to reorient their business around the customer. And, according to KPMG's recent survey of CEOs, more than two-thirds also feel personally responsible for representing their customers' best interests.[11]

The problem is that few seem to feel they have made the necessary progress towards becoming truly customer centric. A great deal of money, time and effort has been invested into various transformation initiatives and technologies that promised to fundamentally change the customer experience. But at the end of the day, most insurers have achieved only incremental improvements in their customer propositions and relationships.

In part, this lack of progress stems from a general reluctance on the part of traditional insurers to make fundamental changes in their business models. But it is also due to the sheer complexity of the task. Indeed, becoming customer centric requires much more than just good customer service and smart products and services; it also requires a new vision, insights, cultures and partnerships that put the customer at the core of the business. It requires insurers to ask 'what role do we play in our customers lives and is it enough?' For most insurance organizations, this will mean radical change throughout the business and ecosystem.

As a result, many insurers are struggling to bridge the gap between their customer ambitions and their organizational reality. Insurance CEOs seem very keen to get closer to their customers (more than half say that's the primary objective of their current investments).[12] But this, in

[11] *Disrupt and Grow: 2017 Global CEO Outlook*, KPMG International, June 2017, kpmg.com.ceooutlook.
[12] Ibid.

> More than two-thirds of insurance CEOs feel personally responsible for representing their customers best interests.

turn, requires them to have the right insights about their customers and — more importantly — the capability to do something valuable with those insights once they've been captured. For most traditional insurers, that will mean finding a way to succeed despite their legacy technology environments and disaggregated customer data silos. Customer analytics is a very powerful way of harnessing this insight, yet only 8 percent of insurers say they are using analytics to identify customer preferences.

At the same time, insurers are also grappling with a number of emerging trends that are changing their underlying competitive environment and redefining the customer relationship (see callout box). Not surprisingly, many are struggling to plot their transformation journey when they aren't quite sure of the destination.

Key areas of focus

KPMG member firms' experience working with leading insurers suggests there are a number of areas where they are already creating competitive advantage.

Leadership
KPMG professionals' experience suggests that the shift towards customer centricity starts with the board and executive team. They will need to be the ones that set the change agenda, articulate the vision and create the customer proposition (73 percent say they can articulate their customer value proposition with confidence today).[13]

Economic model
To achieve the right commercial outcomes, firms will need to start by understanding the customer economic model — knowing what levers they can pull to achieve various outcomes, from improving the customer experience and engagement through to increasing the number of customer touch points and resolving retention issues.

Digital focus
Given the profound impact of digital on today's customer and business environment, leading insurers are elevating the shift to digital channels as a first priority. Indeed, any new transformation initiative should be assessed to understand how its objectives improve the shift to digital and the development of seamless omni-channel experiences.

Interestingly, research from KPMG Nunwood suggests that some insurance brands may be moving ahead quickly. In fact, the top ranked brand in the US (for the second year running) is USAA — a financial services firm focused on serving US military personnel — whose profound focus on the customer is ingrained in its digital-first approach to enhancing its processes.[14]

Customer journey
Leading insurers recognize that customer expectations are rapidly evolving so maintaining a vigilant focus on improving each customer journey is definitely an attribute of the best performing companies. Because of their organizational complexity, the large insurers are having to balance the need for speedy improvements to the customer experiences that exist today with the need to fundamentally rethink future products and services.

Four key trends are emerging as fundamental to the insurance customer relationship

- **The shift from products to services.** Insurers are increasingly focused on wrapping their products in related services and solutions in order to enhance the customer relationship and create new cross-selling opportunities.
- **The shift from protection to prevention.** Many insurers are looking to create additional value for customers and new opportunities for growth by helping them better mitigate their risks and reduce the potential for losses.
- **The shift from reactive to proactive.** In an effort to provide better support to their customers in difficult times, some insurers are using data to proactively identify customers who may be in distressful situations like floods or fires to let them know that they will be there to support them.
- **The development of bespoke products.** Recognizing that customers are looking for tailored products and services, many insurers are creating more bespoke product offerings that could allow them to differentiate themselves in a highly commoditized market.

[13] *Employee satisfaction, customer satisfaction, and financial performance: An empirical examination, School of Hospitality Business Management,* Washington State University, Pullman, WA 99164-4742, United States.
[14] *Customer experience best practice: USAA recognized as the USA's leading customer experience brand for another consecutive year,* Blog Post, KPMG Nunwood Excellence Centre, 2017.

> Only 8 percent of insurers say they are using analytics to identify customer preferences.

Measurement will be key. Indeed, to fully assess the customer journey and the impact of improvements, insurers will need to measure not only the traditional customer experience indicators, but also other — possibly more emotional — indicators (such as anger, trust and enjoyment) to help drive continuous improvement.

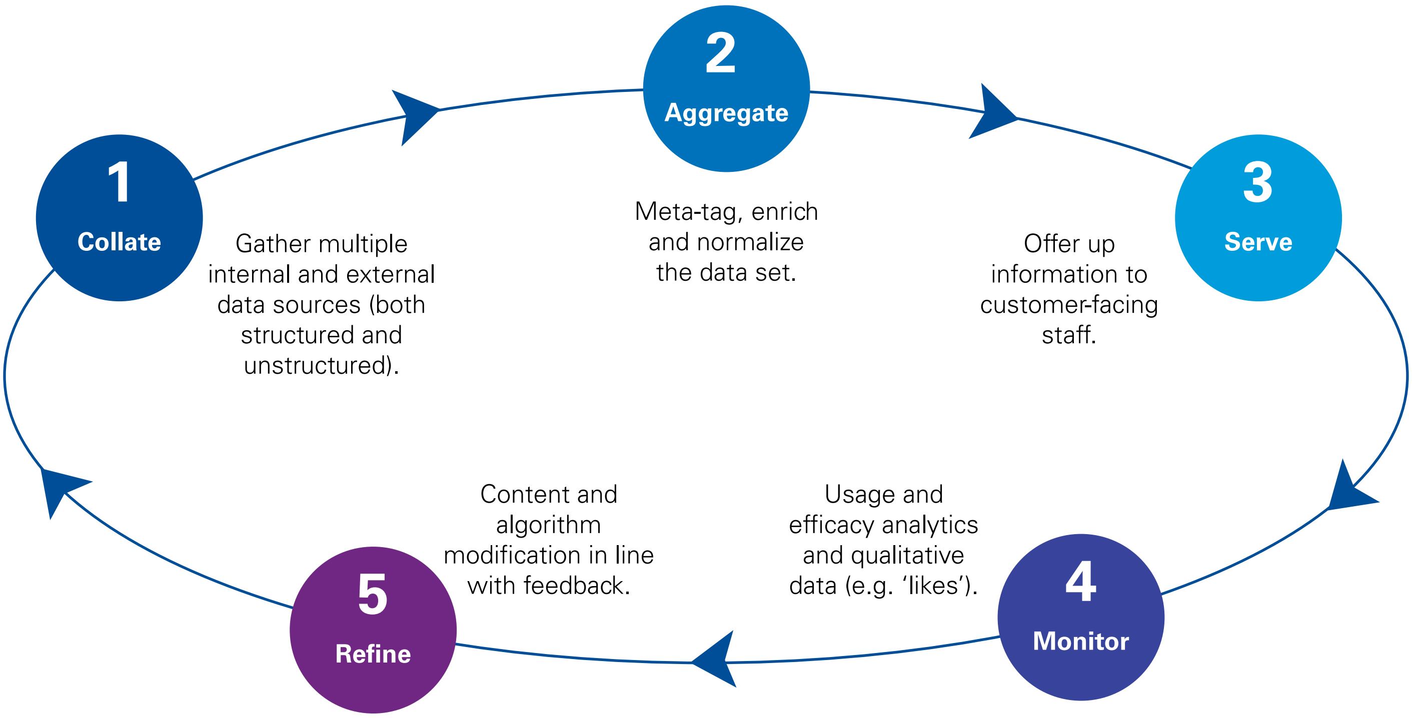
Customer insight and knowledge management
Improving the customer experience also requires deep insights on customer trends, demands, demographics and individual experiences. And it will require insurers to develop and enhance a number of key organizational capabilities in order to support their change agenda.

If insurers want to build trusted relationships with their customers, they need to start by knowing more about those customers. Insurers need to equip their people with the sorts of insights that allow them to have meaningful customer conversations and develop personalized and memorable experiences. Better yet, they need to provide them with the right information to anticipate and then solve their customers' problems, preferably as first-point resolutions.

In part, this comes down to data and technology. New customer relationship management systems, new sources of data and new visualization techniques will certainly play a big role. But having great organizational knowledge will also require front-line employees and data professionals to develop new data-driven capabilities, new ways of working and new skills (such as empathy).

Employee engagement
It's been almost a decade since researchers at Washington State University proved that engaged employees are key to creating engaged customers.[15] Experience shows that engaged employees focus on the organization's core business. They understand and get excited about their role. They take ownership of the customer proposition and vision. Simply put, employee engagement generates innovation, creative problem solving and great experiences.

At a high level, we see a five-stage continuous approach to good knowledge management



[15] *Employee satisfaction, customer satisfaction, and financial performance: An empirical examination*, School of Hospitality Business Management, Washington State University, Pullman, WA 99164-4742, United States, June 2009.

Some insurers could get much better at using their own products and services to improve the employee proposition and drive employee engagement. Really working to understand the employee journey and thinking about employees just like they think about customers is a mindset shift that can have great results. Leveraging internal capabilities like insights and tools to communicate and interact with employees can also enhance the employee experience.

Team structures

Rather than structuring their organizations and teams around traditional vertical and horizontal functions, some insurers are now reorienting their organizational structure around the customer. This means creating dynamic teams of empowered employees that focus on points in the customer journey and experience rather than specific transactions or processes.

To support these new structures, insurance organizations will need to rethink the way they build capacity and capability, develop talent, manage processes and incentivize performance. For example, insurers may want to think about how they develop and encourage 'empathy' as an employee skill.

Partnerships and intermediary relationships

In many cases, insurers are struggling to get closer to the customer because someone in their ecosystem already owns the customer relationship. Leading insurers recognize that they will need to work closely with their B2B relationships and intermediaries in order to capture, analyze and leverage the available customer data and information.

This will require more than just new interfaces and contracts. In fact, much like the customer relationship, insurers will also need to transform their traditional B2B relationships to create more collaborative partnerships where the levers of value are understood by all parties and carefully measured to assess success.

Turning the super tanker

While KPMG member firms' experience working with organizations across the globe suggests that a handful of insurers are already making significant progress towards building a unique and valuable customer experience, our interviews with consumers last year suggest that most insurers continue to disappoint.

In a sector that is considered one of the most likely to become radically disrupted in the next couple of years, insurers will need to move quickly to change their business models and build their capabilities, or risk the demise of their business. ■

Case study: Refocusing around the customer

When a leading global insurer decided they wanted to be top ranked for customer service by 2020, they quickly recognized that they needed to put the customer at the center of their strategy. To start, they spent time defining the future state for their customer operations functions, including a core set of customer journeys, new customer-facing technologies and core capabilities.

Working with KPMG professionals, the organization is designing a new customer strategy and approach, reprioritizing their innovation investments and redesigning their knowledge management to create and deliver frictionless customer journeys. The program has already achieved measurable success and is being viewed as the first of its kind in the insurance sector.

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Louise has over 15 years' experience leading and advising on large-scale transformational change in the financial services and health sectors in the UK and Australia. At KPMG in the UK, Louise provides strategic insight to financial services clients on how to best implement their business strategies through their transformation programs and change portfolios. Her areas of expertise include innovation, cost optimization and growth strategy execution.

Customer experience: The next battleground for success

Amanda Hicks, Partner, KPMG Acuity, KPMG Australia
Martin Rumsey, Director, Asset Management Consulting, KPMG in the UK

Amanda Hicks

Martin Rumsey

Asset managers need to be more agile, flexible and responsive than ever as disruptive influences continue to rewrite the rules for doing business.

While the trust-based relationship between investor and fund manager has changed little in more than a century, client expectations are dramatically evolving in today's hyper-competitive marketplace, making customer outcomes and the overall customer experience critical to future success.

The industry is shifting away from 'selling products' and towards 'providing solutions'; away from 'opaque fees and structures' and towards 'transparency and value'. Success now and in the future hinges on how customer experience is delivered, perceived and shared. With product innovation at risk of being copied or acquired, and all firms wanting to avoid a race to the bottom on price, asset managers must look to customer experience as the next battleground.

The challenge, perhaps unprecedented, involves the complex balancing act of maintaining personal relationships without transgressing anti-bribery regulations while also delivering 21st century service that not only retains current customers but attracts the next generation of investors. And, as noted in the recently published KPMG

> Forward-looking industry players already understand that outstanding customer experience excellence delivers real financial and commercial benefits.

Nunwood report *Spotlight on the Asset Management Industry — B2B Customer Experience: Winning in the Moments that Matter*, asset managers recognize that the industry is already behind the curve, lagging among consumer markets as well as mainstream B2B. At the same time, opinion is divided on how quickly — and with what degree of effort and investment — the industry will be able to catch up.[16]

Forward-looking industry players already understand that outstanding customer experience excellence delivers real financial and commercial benefits. Our Customer Excellence Center reports from the UK in 2016 and the US in 2017 clearly show that firms focused on the quality of the customer experience achieve twice the revenue growth rates of firms less focused on customer experience, they are better able to maintain their margins and, overall, they deliver higher levels of shareholder value.

Six pillars that define customer experience excellence

The research defines the dimensions of customer experience using the six pillars framework. Developed by KPMG Nunwood of the UK following research involving more than one million customers across three continents, the system spotlights six key principles as the building blocks for customer experience success: personalization, integrity, expectations, resolution, time and effort, and empathy.

By understanding what's embodied in each, asset managers can start to assess where their businesses stand and where they need to go to develop a truly customer centric culture. The six pillars articulate the elements of a target experience that drives both loyalty and advocacy and they should lie at the heart of any organization's customer experience strategy, providing a framework for both implementation and measurement.

Personalization is achieved through knowing your customer, remaining alert to their needs and preferences, and tailoring experiences to their unique circumstances. In a B2B relationship, this knowledge may need to span several players rather than a single buyer.

Integrity involves the degree to which consumers believe a firm is trustworthy and likely to act in their best interests. Creating trust requires trust-building behavior, reliability and ensuring beneficial outcomes for both parties. Trust is formed in the onboarding journey, an area where many firms admit they are weak.

Expectations are higher than ever today among clients, meaning firms must strive to deliver a level of service that consistently meets or exceeds customer expectations. This also requires businesses to avoid the tendency to over-promise and under-deliver on services, products, value or satisfaction.

Resolution revolves around the simple reality that no matter how well-developed or mature your business processes might be, things will go wrong. What sets the top companies apart is how they deal with problems as they occur. The ability to resolve issues quickly and reliably is paramount to an exceptional customer experience.

Time and effort mean the level of convenience and efficiency firms can provide on every customer transaction and interaction. The ease of doing business and the amount of time it takes are strong drivers of loyalty. Finding opportunities to reduce cost, time and effort are major relationship enhancers.

Empathy is not a word you hear often when it comes to customers but leading companies talk about 'people and culture' — the ability of their people to put themselves in their customers'

The six pillars of customer experience excellence:

Personalization

Using individualized attention to drive an emotional connection.

Integrity

Being trustworthy and engendering trust.

Expectations

Managing, meeting and exceeding customer expectations.

Resolution

Turning a poor experience into a great one.

Time and effort

Minimizing customer effort and creating frictionless processes.

Empathy

Achieving an understanding of the customer's circumstances to drive deep rapport.

Source: *Spotlight on the Asset Management Industry — B2B Customer Experience: Winning in the Moments that Matter*, KPMG Nunwood, 2017.

[16] *Spotlight on the Asset Management Industry — B2B Customer Experience: Winning in the Moments that Matter*, KPMG Nunwood, 2017.

shoes and react accordingly. This means demonstrating that you can see the world from their perspectives — their priorities and challenges, the obstacles that will get in the way, their fears and worries.

Replace the traditional 'inside-out' view with an 'outside-in' perspective

These six principles should make clear the need for businesses to replace the traditional industry approach — simply creating products and looking for the customers who will buy them — with a customer-first perspective that evaluates customer needs and delivers a solution that best fits each customer.

The B2B experiential life cycle

	Pre-purchase	Purchase	Immediate post-purchase	Ongoing	Renew/dissolve
Target experience	Positive reputation. An organization that stands for something, is competent at what it does and keeps its promises.	A closeness to the customer and the sector that enables the offering to be personalized to the customer's strategic needs.	Delivery on the promise, accurate setting of expectations. Making things easy and straightforward.	Responding with urgency when things go wrong. Emotionally intelligent responsiveness.	Making renewal easy. Achieving strategic supplier status — become difficult to unwind.
Phases of relationship connection	Wooing	Selling/buying	Honeymoon Forming Storming	Norming/bonding Co-creation	Leadership
Moments that matter for asset managers	— Clear market positioning on brand attributes: active vs. passive, trust, relationships — Reputational coverage — Referral/ references	— Client knowledge — business, industry and challenges — Risk appetite & investment strategy preference — Knowledge of the end client (where possible) vs. suitability of proposition — Setting clear service expectations — Collaborative mandate development & contracting	— Strong relationship management — First impressions/ first user experience — Well-executed onboarding — Team chemistry — Opportunities to reduce or remove client effort — Product knowledge and insight — 0–3 months building trust — Quality of client reporting	— Anticipating issues and proactive resolution — Issue management — Adapting service to changing client needs — Responding to changes in emphasis/ strategic direction — Fund performance — 3–6 months critical period for performance — Channel conflict management	— Ability to sell-down unhindered — Last impressions — Exit interviews
Moments of failure for asset managers	— Reputational issues — Confusion on suitability of proposition — Weak relationship	— No ability to articulate the needs of the client (including the end client) — Failure to identify risk appetite — Tendency to over promise	— Poor onboarding experience — Failure to manage cross-company team dynamics — No solutions to predictable problems — Poor change management process	— Quality of relationship manager or change in relationship manager — Poor or inconsistent service quality — Issue responsiveness — No single point of contact for issues	— Acrimonious exit
Six pillar emphasis					

Source: *Spotlight on the Asset Management Industry — B2B Customer Experience: Winning in the Moments that Matter,* KPMG Nunwood, 2017.

This essentially requires the industry's entire market perspective to evolve, with asset managers no longer on the 'inside looking out' but instead taking a view from the 'outside looking in'.

This means shifting focus away from the usual financial and sales performance indicators and towards customer centric metrics that are based on knowing each customer you serve and responding to their specific needs, expectations and preferences. On this front, of course, data and analytics are becoming crucial. The industry's players have largely been sitting on a vast amount of customer data that they have the opportunity to fully mine for new customer insights and competitive advantages. Using data in a predictive manner will open new opportunities for customer experience excellence.

Certainly, the pace and scale of change are creating choices about where to 'place their bets' on transformation that will position them for success as a customer centric organization. Asset Management, unlike many other sectors, remains at the start of its customer experience journey, and the consensus is clear that much needs to be done. Few firms have a sharp vision for what the future experience needs to be, and even fewer have navigated the complex challenge of understanding end customers with whom they have no direct relationship and limited access to customer experience data.

Asset managers would thus do well to develop a strategic business case that helps them identify where on the value chain to invest in resources, capabilities, technology and offerings. This means clearly identifying who your customers are and where they most value the experience along your value chain.

Also critical going forward is the need to transform the business culture into one that knows and understands clients and their customer experience expectations. This includes focusing on building relationships with clients and understanding the various stages of the B2B experiential life cycle outlined on page 40.

The industry's leaders, meanwhile, have a crucial role to play. They need to facilitate a customer centric strategy within their organization; one that makes clients and the customer experience the responsibility of everyone across the business. CEOs, in particular, should be playing the role of 'change agent', putting transformation of their culture and a customer focus near the top of the business agenda. Forward-looking leaders will ensure that their businesses are among the disruptors rather than the disrupted. ■

> A customer-first perspective essentially requires the industry's entire market perspective to evolve, with asset managers no longer on the inside looking out but instead taking a view from the outside looking in.

Creating a single approach

Having recently decided to merge their various operating entities into a single unit, this large global investment firm wanted to create a more robust customer experience strategy that would put the customer at the center of their new operating culture. Working with KPMG Nunwood, the organization quickly started to define and articulate the 'ideal' customer experience, tailored by business and customer type. Recognizing that implementation would be critical, the team also worked to develop a framework that would allow multiple customer journeys to be mapped, redesigned and implemented, supported by a robust cultural change program. The work has been instrumental in creating a single and integrated company focused on the customer.

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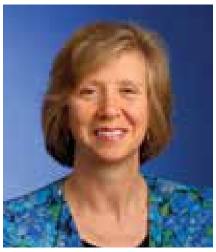
Evolving rules, emerging opportunities for fund managers and investors

Julie Patterson, KPMG in the UK



Julie Patterson

Regulatory change can open the door to more than increased scrutiny, greater compliance and higher costs. New rules of the game can also deliver significant new investment opportunities for managers and investors.

While it's true that the alternative funds industry continues to see a trend in the regulation of products previously unregulated, the funds market around the globe is also witnessing moves to liberalize some products, thereby positioning them to invest in a wider range of assets or to be marketed to a wider range of investors.

The net effect is that changing regulations and evolving rules are creating an array of interesting new investment opportunities globally.

What does this trend mean for managers and investors in those markets, and for global firms?

We will examine how this trend is impacting global markets and what it means for managers and investors who are taking notice.

Some alternative fund rules are being liberalized

In Europe, we've seen that two regulated types of alternative investment funds (AIFs) — European venture capital funds (EuVECAs) and European social entrepreneurship funds (EuSEFs) — have not proven to be particularly attractive to either the industry or investors. Two reasons for this are the narrow investor base and their restriction to smaller fund managers.

> Regulatory change can open the door to much more than increased scrutiny, greater compliance and higher costs.

A proposal by the European Commission has addressed the second point and increased the range of eligible investee companies. It has also prohibited national barriers to the cross-border marketing of these funds, but it has not widened the eligible investor base.

The EuVECA and EuSEF regulations allow smaller fund management companies that are below the Alternative Investment Fund Managers Directive (AIFMD) threshold to market funds cross-border within Europe without opting into the full provisions of the AIFMD.

These funds can thus be marketed across Europe — using the EuVECA and EuSEF labels — to professional investors and to retail investors who invest in any one fund a minimum of 100,000 euros (EUR), equivalent to about USD120,000, and who confirm that they are aware of the risks.

While a number of respondents to the consultation called this too high an investment threshold, others commented that if lowered, additional protections for retail investors would be needed. Given these conflicting views, the Commission decided not to propose amendment of the minimum investment requirement. The Commission is also considering ways to attract institutional investors and how this might be achieved via a pan-European venture capital fund-of-funds.

Eligible fund investments are being widened

Since the financial crisis and the consequent contraction of bank credit, funds have increasingly filled the space that banks used to occupy and an array of new fund types have been created under the broad umbrella of 'alternative credit'. Regulators are starting to take a closer look at these funds, some acknowledging that there is a need to do more to facilitate the creation of funds that could foster economic growth.

The Central Bank of Ireland has relaxed rules governing the issuance of loans by AIFs. The rule change announced in December 2016 allows 'qualified' AIFs to invest for the first time in debt and equity securities of companies to which they lend. The funds can hold these securities for hedging, treasury or cash management purposes.

> Funds have increasingly filled the space that banks used to occupy.

How to define the target market of a fund?

The Private Investment Fund (PIF) was introduced for sophisticated investors as an entirely new category of fund and offers a number of advantages over traditional, more regulated funds.

Ireland was the first country in Europe to set up a regulatory framework for loan origination funds in 2014. It was closely followed by Germany, where the regulator has revamped its approach to products regulated under AIFMD, allowing some closed-ended funds to lend directly to companies.

Recently, in France, the government issued a decree giving professional funds and professional private equity funds permission to grant loans.

In Brazil, fund managers now have the flexibility to invest in Brazilian limited companies and permission to make payments in advance for future capital increases in the investee companies. It introduces new categories of the Fondo Investimenti Piemonte (FIP) scheme, such as the multi-strategy FIP, which may allocate 100 percent of its subscribed capital to non-Brazilian assets. Funds may now invest up to 33 percent in non-convertible debentures.

In India, the Securities and Exchange Board of India (SEBI) has given mutual funds permission to trade in commodity markets and has raised — to 15 percent from 10 percent — mutual fund's exposure limit to housing finance companies. SEBI has also amended the rules for real estate investment trusts (REITs) and introduced 'infrastructure investment trusts', both of which are generating considerable interest among managers and investors.

More jurisdictions allow unregulated funds

With the goal of facilitating rapid and cost-efficient fund launches, Cyprus plans to introduce a regime for registered but non-authorized AIFs. Similar to the Luxembourg Reserved AIF — which has proven popular — the Cyprus Registered AIF will be able to market to professional and well-informed investors and will be managed by a full scope EU alternative investment fund manager (AIFM).

The registered AIF may be organized in any legal form available under Cyprus law: as an investment company with fixed or variable capital, as a limited partnership or as a common fund. It can be open- or closed-ended and it can follow any strategy and invest in any type of assets, but cannot be a money market fund or a loan origination fund.

In addition, the new 'mini managers' — licensed sub-threshold AIFMs — plus other investment firms, and managers of EU mutual funds known as undertakings for collective investment in transferable securities (UCITS), may manage registered AIFs provided the funds are closed-ended limited partnerships and invest more than 70 percent in illiquid assets. Cyprus has also introduced a list of non-management safe harbors for limited partners, offering greater legal certainty to investors.

Guernsey has introduced two new fund products. The Private Investment Fund (PIF) was introduced for sophisticated investors as an entirely new category of fund and offers a number of advantages over traditional, more-regulated funds.

Significantly, applications for a PIF will be processed by the Guernsey Financial Services Commission within one business day and fund documents are not subject to disclosure requirements, thus reducing costs and processing times for launches.

The other new fund is the Manager Led Product (MLP), adopted in anticipation of Guernsey being granted a third-country passport under the AIFMD. The regulatory focus of the MLP regime is on the AIFM rather than the fund, thus mirroring the AIFMD.

Open-ended investment companies encouraged

A number of jurisdictions around the world have decided to launch open-ended investment companies, aiming to replicate the success of Continental Europe's

Société d'investissement à Capital Variable (SICAV), or the UK or Irish Open-Ended Investment Company (OEIC).

In Singapore, for example, the regulator has been consulting on a new corporate structure for investment funds called the Singapore Variable Capital Company. It is intended to be a more-efficient fund structure and the hope is that more fund managers will establish there. Not to be outdone by its Asian rival, Hong Kong has launched an OEIC initiative. It issued a consultation paper in June 2017 and the new OEIC is expected to be introduced in 2018.

Meanwhile, Mexico is also considering an SICAV-type structure, although the Mexican version would operate more like a private equity fund and is designed to hold long-term investments. It is primarily aimed at regulated pension funds.

Weak returns and low savings rates drive search for better savings products

In Japan, the defined contribution pension law has been revised to respond to new working styles and make defined-contribution investing more portable. This has led to a huge expansion of the subscriber base to the individual type defined contribution (iDeCo) pension plan product. The revision abolished most restrictions and allows civil servants, subscribers to corporate pensions and homemakers to join the scheme. Some 67 million people become eligible to open an account, 27 million of them starting in 2017.

As a result, more investment management and securities companies have entered the market. Investors cannot yet put stocks or ETFs into an iDeCo account but can purchase most mutual funds. The costs are slightly higher than the cheapest ETFs but the tax savings on the account tend to make up for that.

In Italy, proposals for the Piano individuale di risparmio (Pir) — similar to an individual savings plan — were approved at the end of 2016 by Italy's government and came into force in January 2017. Investors can avoid some of the capital gains tax on investments as long as at least 70 percent of the portfolio is invested in Italian companies via shares or investment funds. Sweden, meanwhile, has announced that Swedish fund managers will be able to operate investment savings accounts by January 2018.

A double-edged sword?

In conclusion, it's clear that much is being done to adapt the regulatory environment in ways that will enable fund managers continually to deliver access to a wider range of products. The response to date has been broadly positive among managers and investors operating in those national markets. At the same time, though, it creates a more complex product landscape for global asset managers to navigate. ■

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The revision abolished most restrictions and allows civil servants, subscribers to corporate pensions and homemakers to join the scheme. Some 67 million people become eligible to open an account, 27 million of them starting in 2017.

Publications

KPMG member firms offer a wide range of studies, analysis and insights on the financial services industry. For more information, please go to kpmg.com/financialservices.

Fintech 100, 2017
November 2017

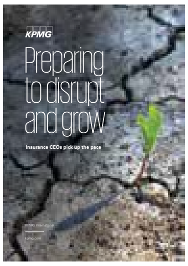
The combination of technology and financial services is resulting in the disruption of the finance industry. In this report, the leading 50 established fintechs and the next 50 emerging stars from across the globe are identified.

The Pulse of Fintech: Q3, 2017
November 2017

The Pulse of Fintech is a quarterly report created by KPMG Enterprise and KPMG Fintech. The series analyzes the latest global trends in venture capital investment data on the fintech sector.

Forging the future: How financial institutions are embracing fintech to evolve and grow
October 2017

Based on a survey of financial institutions worldwide, as well as interviews with executives from leading banks, insurers and asset management companies, and KPMG professionals, this report explores how financial institutions globally are designing strategies and adopting fintech, as well as best practices for forging the path ahead.



Preparing to disrupt and grow: Insurance CEOs pick up the pace
July 2017

KPMG asked more than 100 CEOs from the world's largest insurers about their plans and concerns over the next few years, and what we heard reveals some surprising insights. This report highlights the top-level findings and how insurance CEOs will need to pick up the pace of transformation and innovation if they hope to remain competitive in this rapidly-evolving market.

Seizing the cyber insurance opportunity
July 2017

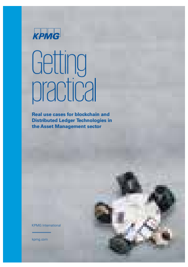
As our world becomes increasingly digital, insurers have an opportunity to address the real risks that cyber poses. To become cyber leaders, insurers need to enhance their cyber capabilities and rethink their organizational structures. For those that get it right, the rewards could be sizeable.

Spotlight on the Asset Management Industry — B2B Customer Experience: Winning in the Moments that Matter
June 2017

Developed by KPMG Nunwood, this report includes insights from interviews with senior executives at 16 fund management companies across the industry, representing approximately one third of the value of the global industry, seeking to identify the key trends and understand the direction of travel for the industry.

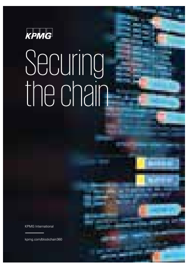
Evolving Investment Management Regulation
June 2017

In this year's seventh annual report, we look around the globe at how the investment and fund management industry is having to implement new requirements and respond to supervisory requests and reviews. And more changes loom on the horizon, as some jurisdictions face a pipeline of new regulatory initiatives.



Getting practical: Real use cases for blockchain and Distributed Ledger Technologies in the Asset Management sector
June 2017

There are many amazing benefits of blockchain and DLT that should be taken seriously. Many asset managers or banks are starting to recognize the wide range of benefits that this new technology could deliver. In this report, we cut through the hype of blockchain and DLT to offer real and practical examples of how these technologies work in the asset management space.



Securing the chain
May 2017

In Securing the chain, we examine two recent high profile blockchain incidents in which the attackers exploited security vulnerabilities while the blockchain networks and their underlying infrastructure continued to function as intended.

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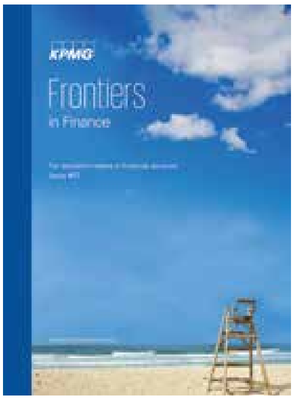

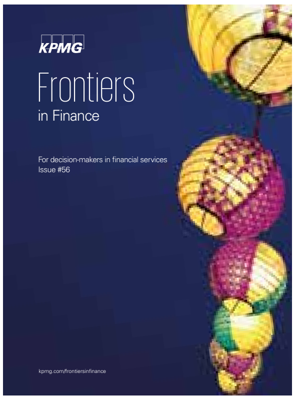

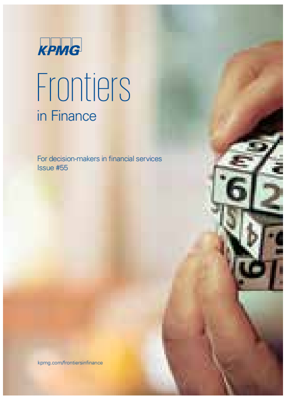

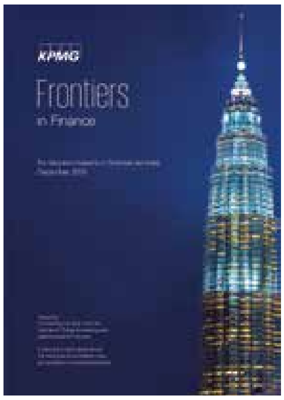

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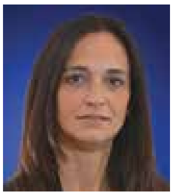

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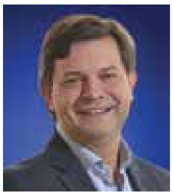

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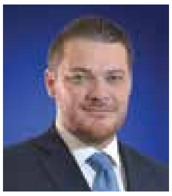

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