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# C.O.O. Agenda

CONSULTING

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## KPMG's COO Roundtable

KPMG's COO Roundtables function as a forum for likeminded individuals to develop

ideas, share concerns and point the way to potential solutions. These roundtables are an on-going dialogue on how the COO can execute in very challenging and dynamic times.

**The market is stagnant and decisions are getting more difficult to make.**

## The New Norm

Many COOs continue to show their concern around the uncertainty of the market. There was still a mood of pessimism that things will remain volatile for the next six to twelve months. Having said that, many organisations had a good first quarter but this is not set to continue into the remainder of the year. The next few months will likely be tough with some early indications of downward trends ahead.

These uncertainties have stemmed primarily from the number of significant events happening globally, including the US election, the volatility of European economy, changes in Chinese leadership, and the major changes in supervisory structures and increased reporting burdens. In many areas the market is stagnant and decisions are getting more difficult to make as no one can foresee where the market is going to be. Indeed the group discussed how the Eurozone continues to be a great concern and few believe that Asia will

come out unscathed. Protracted debates and discussions were like "a death by a thousand cuts". Something had to be resolved positive or negative. There was an agreement we needed more certainty. To this point, the consensus was that Asia was still highly liquid but this money will not be released easily. The uncertainty of global markets is keeping this money out of the market.

All these changes have prolonged the uncertainty and reduced the feeling of stability. As a result, few companies are willing to take on additional risks which involve major capital outlays. Many are focusing on short term cost cutting measures, for example head count reductions, rather than consolidation or optimisation through re-structuring.

Overall there was a feeling that we now have a new norm. This new norm reflects lower revenues given market conditions with significant margin pressures.

This new norm was forcing organisations to look at their target operating models more closely. COOs were looking in significant detail at all aspects of their operations including infrastructure, technology, people, and locations. There was a lot critical review of the revenue they were achieving in specific countries.

The new norm was a "generational change". In some key products and services, many had over-invested in infrastructure and expansion.

**THERE ARE NO LONGER EASY & CLEAR ANSWERS**

Given the market conditions and lower revenue expectations, companies had to get leaner in the long run. The hard decisions now needed to be made. Short term solutions like staff headcount reductions were not sustainable. People had to reduce their infrastructure and start to optimize or spend on technology.

More than ever, COOs are faced with difficult decisions in times of uncertainty. What should COOs do

moving forward? Cost reduction? Investment? The macro environment and the markets are opaque and there are no longer easy and clear answers to these questions.

## The Need to be Lean

Many COOs were faced with limited investment options and had to get leaner. There were examples around a lack of capital expenditure at their disposal as compared to what they had in the past. They needed to be even tighter with their wallets but still deliver program enhancement. The other challenge was dealing with a head count freeze whilst trying to retain and attract the best talent even though these individuals were overloaded. There was a delicate balance of reducing infrastructure and locations while making sure they could serve their customers and clients... The new norm is not easy.

This balancing act, which required intense focus and stresses, is starting to be felt across the organisation. This is then compounded as many COOs need to manage operations across different jurisdictions. How does one run lean across disparate and diverse locations in an ever changing regulatory landscape?

## The Impact of the Change in Leadership

One of the key drivers of this uncertainty at the moment is the potential change of governments in Beijing, Washington and across the globe. It becomes a waiting game to see what will

happen and this can stifle business. With two of the largest economic powers in flux, any changes to the leadership will have significant impact on the rest of the world.

## The Growing Pressure from Regulations

With the implementation of Basel III, reporting requirements in the U.S. for Dodd Frank, the Foreign Account Tax Compliance Act (FATCA), IAIS Insurance Core Principles, Solvency II, local Risk Based Capital reform and other local regulatory changes etc., pressure has been increasing for organisations in many countries from all these changes in supervisory structure and increased reporting burdens, especially for the financial services sector.

Adding fuel to the fire, with the volatile economic situation in Europe, there is uncertainty with what new regulations will come out given new governments and leaders.

Organisations recognise their current systems may not be efficient enough to meet all these regulatory changes. Technology is going to critical in getting rid of inefficiencies and getting standardisation across corporates. Therefore, many organisations have launched projects to assess its capability to adopt these new changes.

As a result, many COOs were faced with escalating costs and investment is needed to meet these changing regulatory regimes. There was a view that this is not going to change in the short to medium term.

It was also very clear that many COOs, because of the nature of their roles, must understand what the impact of all the regulatory changes would be to their operations. This was not an easy task. Many had hired regional compliance and legal officers to keep abreast of these changes. These roles were being revamped and given more authority, compliance is fast becoming a major part of business strategy.

## Keeping Up with the Jones

This is indeed a difficult time for COOs to look at what the Jones' are doing. How does one keep up, especially with so much business and technology investment being spent to meet the growing regulatory regime? Everyone was taking the meeting of regulatory requirements very seriously. It is a difficult time to put limited investment dollars where, in some cases, these dollars were shrinking given that lower revenue are being seen.

This was really a time to get your house in order. The next six to twelve months will be focused on getting leaner and meaner to face whatever the market conditions would be.

One of the common themes discussed was client on-boarding. In these new technological times of social media, there was a need to look at all of the on-boarding policies and procedures. The customer experience was crucial. How do we make real money here? It needed to be an avenue for more than getting information or tracking what people were saying about financial institutions. There was a need for a more detailed industry debate on social media. We needed to remove the hype.

Many COOs felt it was critical that everyone also started talking about winning in the market, rather than just focusing on cost cutting, and meeting regulatory demands.

**Babak Nikzad**

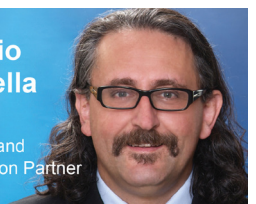
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