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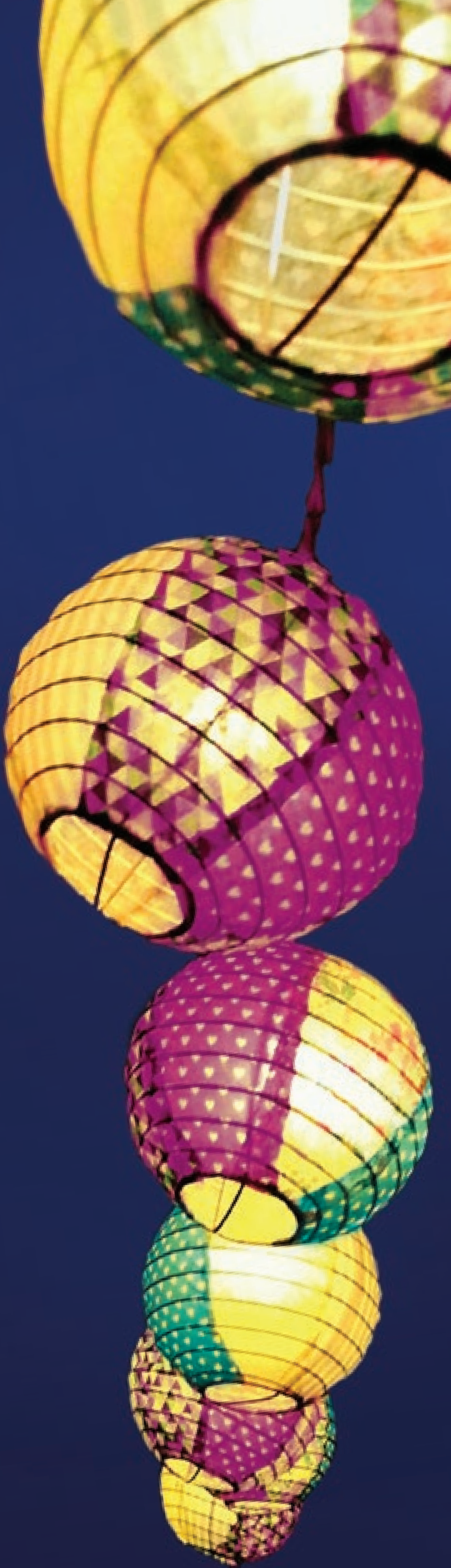
Frontiers

in Finance



For decision-makers in financial services

Issue #56

kpmg.com/frontiersinfinance

Prólogo

Dentro del marco de un nuevo entorno político y con cambios a nivel internacional, el sector financiero se ha visto afectado por la incertidumbre que se genera en cuanto a las decisiones que afectaran o no a los negocios. Las posibles amenazas u oportunidades aún no son claras, pero lo que sí está claro es la necesidad de las empresas de estar preparadas para afrontar estos cambios teniendo como aliado a la innovación y la tecnología.

La necesidad de volver a plantear los modelos de negocio en los bancos y empresas de servicio financiero es un tema cada vez más importante ya que deben ir acorde a la velocidad del cambio, alineando su estrategia a estos. La tecnología, innovación y cambios disruptivos ya alcanzaron también a las economías emergentes obligándolas a unirse a esta ola de innovación.

Las aseguradoras, por su parte, también deben adaptarse a los cambios en el mercado y necesidades de los negocios, todo esto con ayuda de la tecnología. La necesidad de brindar mayor valor a los consumidores y partes interesadas es una preocupación de los CEO hoy en día.

En esta edición de Frontiers in Finance veremos temas relacionados a los mercados emergentes, digitalización del negocio de los bancos, la trasformación de los negocios de las aseguradoras a través del CIO y la generación de valor para los consumidores y otras partes. Asimismo, se tocarán temas importantes como: el efecto del Brexit, la implementación de la IFRS 17, la lucha de las empresas para hacer frente a los ciberataques y las preocupaciones de los CEO que tienen como foco clave como la innovación y cambios tecnológicos impacta a sus negocios.

Eduardo Alejos
Audit Partner and Financial
Services Lead Partner
KPMG in Peru

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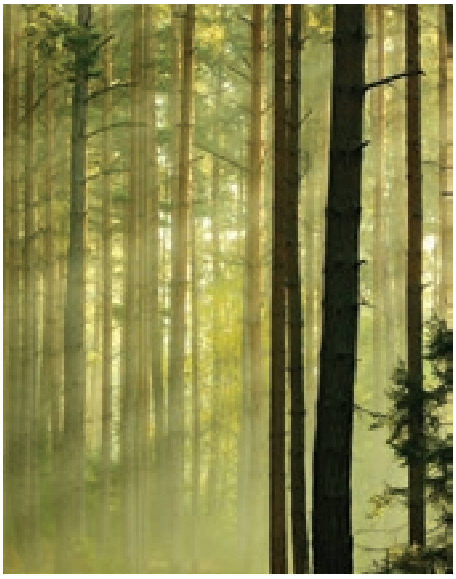
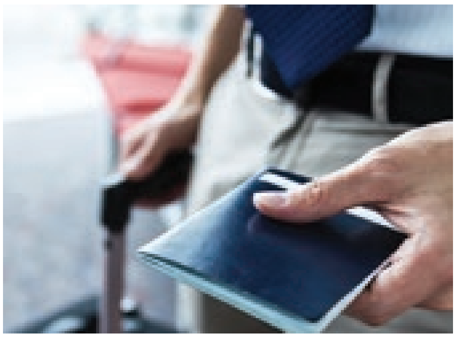
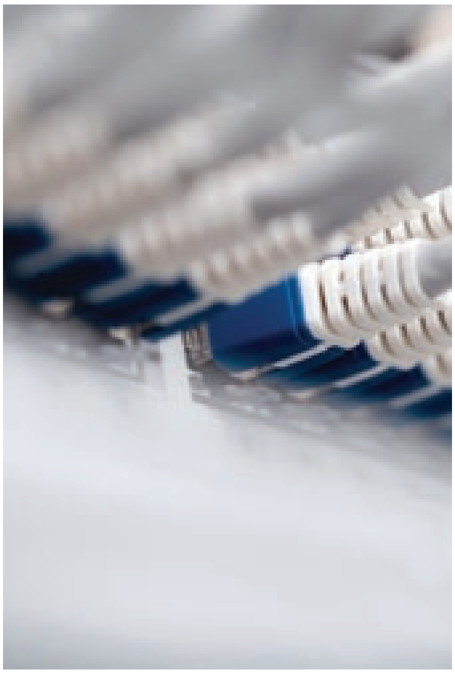
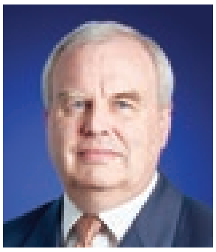






New perspectives, new dynamics

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



Jeremy Anderson

The financial services industry is facing challenges right across the horizon. In the last issue of *Frontiers*, I argued that the underlying priority of the last few years has been the management of change in complex environments. Leaders in our industry have to develop new ways of nurturing talent, clarity and the environment in which to succeed. In particular, they now have to confront the question of digital adoption and enablement, and face the challenge of change in multiple dimensions.

Major impacts

In banking, balance sheet restructuring and higher capital requirements are having significant consequences. New standards for accounting and reporting are having a major impact on the insurance industry. The investment management sector faces increased scrutiny of leverage, liquidity and the potential for systemic risk, with some funds facing the need for loss adjusting capital. All of these impacts on the operating model are being felt in tandem with massive changes in consumer demands. Customers are increasingly expecting high-quality service, instant online access for transactions, advice and account management, and consistent returns — and all as far as possible for free. Major geopolitical developments — such as the British vote to leave the European Union — carry additional serious implications.

Technological developments are driving changes in the demand for financial services at an ever-faster rate, with service provision having to keep pace. We see this directly in, for example, the growth of peer-to-peer lending and other disintermediating platforms. Less directly, we also see how technology can disrupt traditional products and markets, thereby transforming the associated demands for finance. In the automobile industry, for instance, the advent of driverless cars will convert individual car ownership into the provision of transport as a service, radically destabilizing the auto insurance market and the provision of credit for lease or purchase. Elsewhere in this issue, we see how many insurers continue to struggle to achieve the type of agility and flexibility they require to win in the market.

It is understandable that industry leaders may feel overwhelmed by the magnitude of these changes and by the burden of leading large, complex, regulated organizations through the scale of the transformation they require. Nevertheless, the old cliché that change always brings opportunities still applies; and I am seeing now, right across the industry, a renewed sense of the opportunity for innovation and growth. There is a palpable shift in sentiment from the defensive — and apprehensive — attitudes that have dominated the sector until recently.

Reawakening

Senior executives across the financial services sector are showing real evidence of urgency and commitment; they are exploring new ways of thinking, and restoring energy to organizations that had become justifiably weary after wave upon wave of change. In banking, we are seeing the reinvention of business models, elimination of costs, real growth in return on equity. In insurance, there is widespread innovation aimed at servicing the client more easily and effectively, and developing more efficient underwriting and claims management processes. The use of technology is increasingly enabling asset management firms to provide tailored advice, guidance and insight to people who have an absolute need to save, but whose portfolios don't justify the heavy costs of personal management.

I have the sense that our industry is collectively rediscovering the fact that it still has great brands, a solid foundation and a large customer base with real needs to fulfill. These offer a strong basis from which to resist excessive disintermediation and the threat from new entrants. It is a challenging but also an exciting and rewarding time: perhaps the threshold of a revolution in the industry.

The digital challenge

Nevertheless, as change brings opportunity, so opportunity brings threats. In the front line of looming disruptive change is the whole question of digital adoption and enablement. Leading practitioners are exploring how to redesign the provision of services to customers from a data perspective, constructing delivery methodologies for an omni-channel environment. In business operations, we see the continuing digital restructuring of processes from the front to the back office. Speed of action and response are nowadays critical.

A key threat is that digital technology breaks down vertical integration, disintermediates traditional suppliers and allows new utilities to move into the market, relying on new data and digital platforms to facilitate that penetration. For example, in back-end processes, blockchain technology is beginning to create transparent and efficient digital ledger services and shared platforms for information transmission; it is true that widespread adoption will be necessary to extract economic benefit and achieve exponential increases in returns on equity, but the direction of travel is very clear.

At KPMG we are working, amongst others, on proof of concept developments in digital technology spanning mortgage processing, payments and improved settlement processes in the currency and swaps markets. All of these initiatives are confirming the tangible potential that digital technology has to provide a platform for innovative — and disruptive — future business models. Areas such as robotics, process automation and early work on cognitive technologies are showing fast and tangible progress, and proving that they are very powerful tools with the potential to transform business models, reshape the cost base and, not least, improve the quality of work for employees.

Managing the change

As ever, the big challenge is how to develop the capabilities necessary to exploit the new digital opportunities and embed them into the heart of the organization. Here, the task of scaling up as the basis of substantial and sustained performance advantage is radically different for established players and for new entrants. Incumbents need to insert and embed these new capabilities into the heart of large, cumbersome organizations with legacy systems. By contrast, new entrants, built around these technologies from the start, have to find ways to expand rapidly and scale up many times to achieve market credibility, proven efficiency, reliability and economies of scale, and to develop trusted brands.

It has become commonplace to talk of the Fourth Industrial Revolution in describing the dramatic developments that are going to reshape the marketplace. However, this is to conflate two very different historical moments. In the first Industrial Revolution, all the disruptive, innovative developments were driven not only by new technologies but by individuals — Arkwright, Crompton, Hargreaves and their peers — who had no background in industrial manufacture. But today, as we have seen, current players have strong foundations that can enable them to exploit the new opportunities from digital technology themselves and mount strong resistance to the encroachment of new entrants.

This competition between incumbents and challengers to own the digital space will be one of the defining features of the next few years. Digital technologies emerging from the proverbial garage in Silicon Valley, Shoreditch in the UK or Singapore will transform the industry, forcing new ways of working at the core of existing organizations while providing a springboard for new competitors. Many emerging markets are adopting digital and disruptive banking technology faster than traditional markets. The balance of advantage between the two — incumbents vs. entrants — will determine the scale of disruption and change in the industry.

The digital maturity assessments we undertake in KPMG for financial services clients, reviewing their businesses to identify the most promising areas for digital innovation, are very revealing. I am increasingly finding that there is a real appetite, not only among senior teams but across the organization, to understand more about the opportunities and threats and how to manage the challenge most effectively. Experience with other sectors and industries shows that large organizations are beginning to understand how to develop innovation ecosystems drawing on resources from inside and outside the company. Mixing people with the right skills from different disciplines can create genuinely original ways of looking at things. Contrasting perspectives can generate new solutions out of the clash of opinions and approaches. (This is a theme explored later in this issue.)

But it is not a simple process to establish the groundwork and the framework for productive innovation. The question for leadership teams is, with so much change occurring, where to concentrate resources and how to strike the right balance between unfocused creativity and disciplined development? An unrestrained 'skunkworks' approach is likely to lack critical grounding. Generating real change requires real focus; alignment and enablement from top to bottom of the organization; and the integration of new approaches to business and technology with legacy systems.

In heavily regulated financial services businesses, there are additional constraints, even in enlightened regulatory contexts, where regulators want to use innovation to improve systems and processes and enhance oversight.

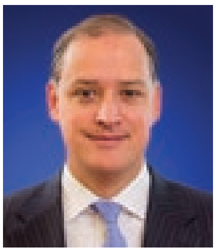
Grasping the opportunity

In a rapidly changing world, there are new opportunities and different opportunities, to find innovative ways of serving new customer needs and demands; and to adapt better and faster than the competition in satisfying existing demands. We are now seeing the emergence of a much more positive mind-set, aimed at seizing the opportunities in the marketplace, rebooting the industry and transforming monolithic legacy organizations into fleet-of-foot providers fit for the digital future. This is very encouraging. Because if we fail to seize the opportunity that the digital revolution offers, we could be stuck in a persistently embattled mind-set. This could do permanent damage and destroy many inherently valuable businesses. ■

Dynamic new partnerships and initiatives are 'at the heart of the digital future' for banks

By **Jan Reinmueller,** KPMG in Singapore
By **Ian Pollari,** KPMG International

Jan Reinmueller



Ian Pollari

Banks and financial institutions globally are facing immense challenges as disruptive change, driven by a combination of heightened regulation, fast-paced technological innovation and evolving consumer behavior, reshapes traditional ways of doing business. But banks navigating the transformation trail are struggling in a low-growth economy, balancing financial returns over the short to medium term, while simultaneously investing in their digital capabilities and innovation to position themselves for long-term growth.

Complicating the challenge to innovate more rapidly and efficiently is the complexity of legacy banking infrastructure, the size of organizations and their 'risk averse' cultures and hierarchical structures, which often kill innovations before they can gain any momentum.

There's no doubt that new entrants such as Fintechs and, increasingly, e-commerce giants, are bringing fresh and innovative ideas and services to a marketplace of eager consumers who are voicing less trust in — and loyalty to — traditional institutions. A post global financial crisis world has seen a transition from the battle of the balance sheet to an intense and urgent new battle to attract and retain customers in today's increasingly competitive environment.

"Invariably, every strategy and change initiative will require very careful consideration of these significant challenges in order for such large, complex, highly regulated organizations employing hundreds of thousands of people to truly reinvent themselves amid disruption of the entire ecosystems in which they operate," says Ian Pollari, global co-leader, KPMG Fintech practice.

"It raises questions about the role of innovative new partnerships and sourcing of new capabilities, and where to invest in and/or acquire Fintechs or smaller tech companies that are agile enough to offer big banks the immediate ability to experiment and evolve much more quickly and effectively than they could individually, given their size and constraints. Innovative partnerships can offer tremendous capabilities to solve problems and drive effective changes to operations, technology, processes and services."

"Exploring and facilitating such partnerships to drive change will require financial institutions to recognize that they are dealing with a whole new category of third-party service providers," Pollari adds. Such initiatives by their nature will, therefore, need to be more experimental and collaborative in order to rapidly solve specific problems and address evolving needs as disruptive changes keep rewriting the rules for doing business.

"Banks will need to figure out how to augment their traditional sourcing and procurement practices in ways that are more conducive to working effectively with smaller Fintech companies in a more agile, experimental environment where the change is low cost, low risk and quick. It will require a far more collaborative approach than the traditional vendor relationship today's banks are accustomed to."

'Top-down' strategies for today and tomorrow are critical

Big banks that are prepared to engage with Fintechs will also need to adopt a very strategic approach that addresses two key perspectives. First, they need to have in place strategic priorities for the changes and new services or models they need to implement. This includes identifying capability gaps that need to be filled or addressed by the bank itself or a Fintech relationship. "This will require a top-down strategy on the priorities of the organization and how these are going to drive engagement and interest in Fintechs," says Pollari.

> "What we've done is curate and select Fintech companies that we think are the leading firms in Australia to solve key organizational challenges and opportunities."

Beyond immediate needs and solutions, banks should also be exploring and assessing opportunities that transcend the immediate ecosystem in terms of future capabilities or services.

"The right Fintech can actually prompt the bank to consider a new opportunity or adjacency they might not have imagined or considered. I encourage banks to dedicate maybe 70 percent of their efforts to addressing current strategic priorities and 30 percent to exploring or pursuing new developments or emerging technology that can really come to fruition quickly for the benefit of their customers or operations."

"The need to remain forward-looking amid the constantly changing landscape will remain critical," Pollari notes, meaning banks need to be committed to the innovation trail. And while some industry players are adapting and moving forward with progressive new engagements, partnerships and initiatives in the face of disruption, many are lagging behind and facing tremendous new risks that include being left behind, or worse, in the future.

"A significant number of financial institutions get it and are responding accordingly. But broadly speaking, you could have a third of banks and financial institutions today that are not adequately engaged. And some will struggle in a digital economy where innovative partnerships between Fintechs and large incumbents can deliver rapid and dramatic advances."

Many organizations have set up or are turning to innovation labs, incubation hubs and accelerators that provide crucial links between financial institutions and Fintechs. For some organizations, particularly those faced with the challenge of finding a suitable Fintech, an accelerator or incubator can provide crucial support in providing ideation, exploration, experimentation and piloting of certain opportunities or solutions.

KPMG's new Digital Village in Singapore, and mLabs Fintech Accelerator Program in Australia, are two examples of initiatives designed to bring together the key players, expertise and capabilities needed today to drive effective transformation for financial institutions.

KPMG recently launched mLabs, a new Fintech accelerator connecting seven Australian mutual banks with 14 Fintech start-ups that are looking to help identify and develop commercial solutions to business challenges. KPMG's mLabs is designed to drive various commercial outcomes for participants, whether designing and launching new digital products and services, enhancing the customer experience or improving internal efficiencies.

Using a 12 week structured innovation program, mLabs is providing a crucial new platform for collaboration and a safe space for experimentation regarding new services for mutual banks that have a combined customer base of more than two million people.

"What we've done is curate and select Fintech companies that we think are the leading firms in Australia to solve key organizational challenges and opportunities," Pollari says. "It is an 'accelerator' in the context of helping these organizations drive quickly toward commercial outcomes. We are matching the needs of organizations with the specific expertise of various Fintechs that have the capabilities to meet a particular need. The outcome is mutually beneficial to the banks and the Fintech companies."

As an example of what can be done in such a setting, four banks are collaborating in examining the application of a new mortgage blockchain solution with a Fintech company to reduce the mortgage application, settlement and funding process from an average of 42 days today to just 5 days and, over time, potentially 80 minutes. This would be game-changing for the industry.

"That's a good example of cross-industry collaboration to explore and develop new capabilities and processes in an area that banks typically find too difficult to solve or improve. They find tremendous value in being able to experiment in a collaborative manner. Other banks are looking at how to work with Fintechs to enhance their customer experience by digitizing processes and services, while others want a Fintech to help them solve back-office inefficiencies. It's proving extremely valuable for everyone involved."

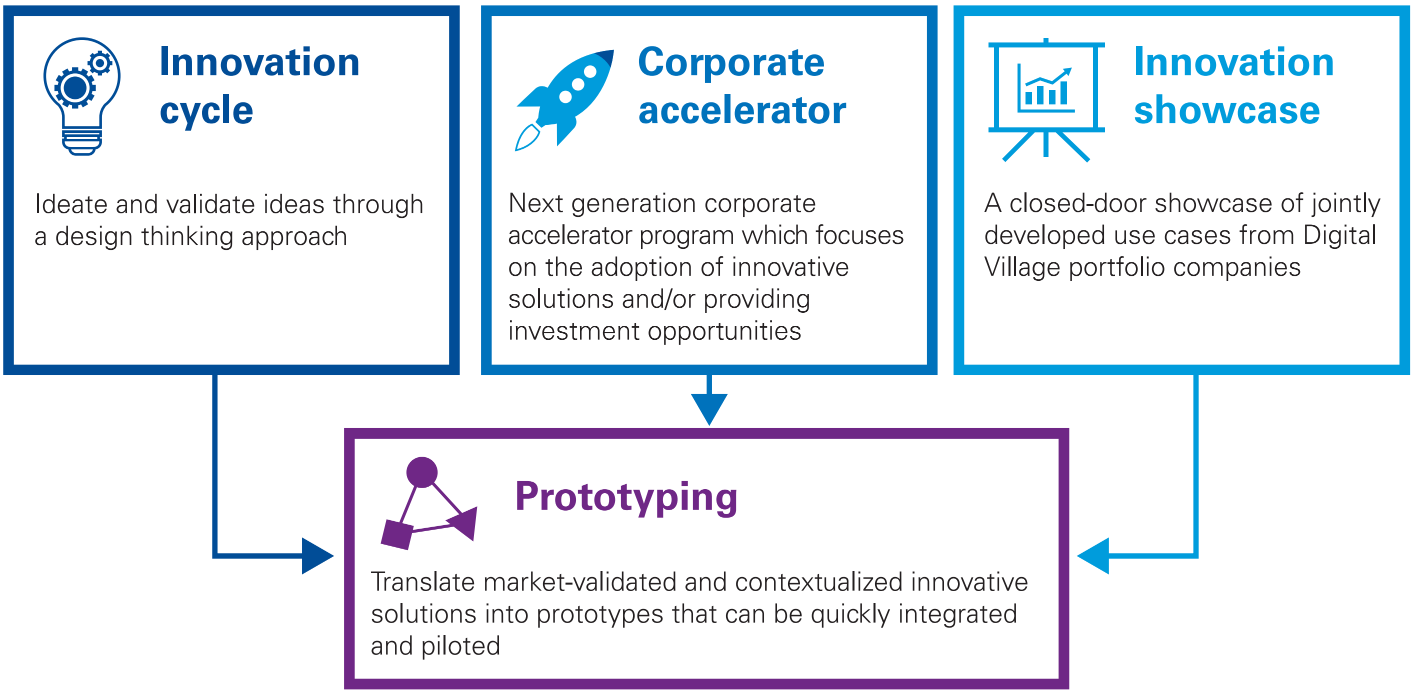
Banks are discovering new ways to collaborate

Beyond driving change, such initiatives are demonstrating to banks how to work effectively with Fintechs in the future. "Banks are learning how to be more meaningfully engaged, how to articulate what their problems are, what questions they should be asking, and so on," says Pollari.

The KPMG Digital Village brings corporates, startups, investors and government bodies together in a collaborative ecosystem to drive the adoption and integration of innovative solutions. It is like a living lab for innovation, co-innovating to turn innovative ideas into robust, practical solutions with:

- mentorship
- market access
- proposition support including market validation and business-case development
- fundraising and access to investors
- operational support.

Within the Digital Village, our teams offer a portfolio of services which support the different needs of corporates



> These are such challenging times and there is no time to waste as disruption of markets and business models continues to entirely reshape traditional ways of doing business along with the expectations, needs and demands of customers everywhere.

For corporates, the Digital Village offers:

- innovation workshops to explore challenges and opportunities
- access to start-ups
- a methodology to test and validate digital product innovations
- global expertise in digital strategy, innovation and design.

"Our overall approach is to help clients understand and make sense of the critical and rapidly emerging developments occurring in the market, and to recognize what the implications are for them, the potential future scenarios that might play out," says Jan Reinmueller, the head of KPMG's Digital Village in Singapore. "It's broader than financial services and involves technology, demographics, economics — basically all of the externalities that are shaping and influencing consumer attitudes and behaviors and how those are evolving. Initiatives such as these help organizations answer the 'So what?' question that many of them are struggling with, in terms of understanding what the future holds, how trends will impact them, how to strategically assess new opportunities and threats, and so on."

In this environment, organizations can test or assess whether new strategies and initiatives are desirable to the market, technically feasible and commercially viable.

"While many schemes exist to support innovative start-ups from concept to early funding, much more can be done to bridge the gap between ideation and the commercialization of innovations," Reinmueller adds. "Our Digital Village program is the heart of a digital future, powered by collaboration between all significant players in the ecosystem. It will help start-ups to further accelerate and grow to the next stage and equip corporate clients with the latest innovation technology."

"The complexity and velocity of change can be overwhelming for many firms today, but the emergence of new initiatives and partnerships are already generating benefits and competitive advantage for organizations that are taking a strategic approach," Pollari concludes.

"These are such challenging times and there is no time to waste as disruption of markets and business models continues to entirely reshape traditional ways of doing business along with the expectations, needs and demands of customers everywhere," Pollari says. "With challenge comes opportunity, and forward-looking organizations are embracing new initiatives and relationships that will drive new forms of competitive advantages and value." ■

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Jan heads the digital village and innovation ventures program at KPMG in Singapore. As the lead of innovation ventures, he is responsible for turning opportunities into customer-centric products and serves as an innovation partner for corporate clients. His focus is on maximizing commercial impact and optimizing time in bringing products to market.

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Ian is the Head of KPMG's Banking Sector in Australia and the Global Co-lead for KPMG's Fintech practice. Ian has over 16 years' experience servicing clients in the financial services industry and brings knowledge and insights into the experiences of local and international banks, payment providers and Fintech start-ups in areas such as strategy development, market entry and digital innovation.

Getting strategic about inorganic growth: Insurance CEOs speak

By **Ram Menon,** KPMG in the US
By **Mike S. Walker**, KPMG in the UK

Ram Menon

Mike S. Walker

Insurance chief executive officers (CEOs) are becoming much more strategic about their inorganic investments.

While the pace of deal making in the insurance sector may have slowed when compared to the prior year, our survey of more than 100 insurance CEOs indicates that appetite for inorganic growth remains high.

Almost half of all insurance CEOs — 45 percent — say they expect to undertake a merger with another firm in the next 3 years. Around four out of 10 say they will either buy or sell a business, asset or capability set from (or to) another firm. Half of the CEOs we surveyed believe that inorganic growth will be key to achieving their growth strategies.

Why, then, has this not translated into a flurry of deal making and consolidation across the sector? In large part, it is because insurance CEOs have become much more strategic about their investments.

Although many insurers expect to conduct traditional mergers and acquisitions over the next 3 years — our data demonstrates that they are equally (if not slightly more) keen to create partnerships and joint ventures with other firms to innovate and achieve their strategic objectives.

Our experience suggests that many insurance executives have become much more focused on creating stronger alignment between their mergers and acquisitions (M&A) activity and their business strategy. They are thinking carefully about how their businesses will win in their markets, and they are looking for acquisitions and partnerships that could help them enhance their competitive advantages. They are reshaping their portfolio of businesses and assets, centers of operational excellence and markets to meet future growth opportunities. And they are thinking carefully about what capabilities and skills they will need in order to innovate and win in the future.

Strategy-driven transactions

For most, this journey will start with formulating a very clear understanding of what makes their business unique and competitive in the market and then using that information to start to assess the real value and strategic fit of potential acquisition targets.

Say, for example, your business is a market leader for superior customer service. Assets or businesses that could help brandish those credentials or improve those capabilities should therefore be of higher value to you than they would be to a competitor who competes based solely on low prices. With this information in hand, insurers should be able to make more value-based investment decisions that ultimately lead to achieving their long-term strategic growth objectives.

Applying the strategic lens

Leading insurers are also starting to take a much more holistic approach to evaluating potential acquisition and partnership opportunities. They now look beyond the traditional financial due diligence aspects of evaluating the deal to also consider the strategic fit of the target's business model and the potential risks associated with integrating the target's operating model.

In most cases, this means extending and expanding the due diligence process at both ends: at the top end by including a more strategic analysis of the target's medium-term strategy; and at the back end where insurers are starting to conduct more strategic integration risk assessments of the target's businesses, its people, processes and systems that they are hoping to acquire and integrate into their operating model.

Creating alignment

In many cases, this may require closer alignment between members of the existing M&A function, the strategy function and corporate development function to enable strategy-driven transaction identification and evaluation for long-term growth. It will certainly require tighter screening and more frequent communication among the functions for better coordinated planning and execution of transactions.

45%

of insurance CEOs expect to undertake a merger with another firm in the next 3 years.

> "They now look beyond the traditional financial due diligence aspects of evaluating the deal to also consider the strategic fit of the target's business model and the potential risks associated with integrating the target's operating model."

> In today's slow-economic growth and low-interest rate environment, it is clear that inorganic growth (via mergers, acquisitions, partnerships and alliance transactions) will continue to be a critical component.

This article is part of KPMG International's CEO outlook series for the insurance industry. Data has been taken from KPMG International's global CEO outlook survey of 1,268 chief executives from Australia, China, France, Germany, India, Italy, Japan, Spain, the UK and the US. Of these, 105 are from the insurance industry.

It may also require a reassessment of the objectives and priorities of the M&A function to focus more on the expected and actual value that transactions deliver rather than simply on the successful execution and closing of transactions.

More than one lever to value

When we work with insurers to improve the value of their inorganic growth strategies, we focus on what we call the 'Nine Levers of Value'. The process allows executives to not only drive improved alignment between strategy and capability, but also to achieve a more holistic view of the relationships between each lever.

By focusing on the levers of value to evaluate a potential target's business model and create improved alignment with the potential target's operating model, insurers could have a much clearer view of how value is created for their businesses by adopting a strategy-driven transactions perspective. The point is to go beyond the traditional deal and transaction metrics to truly understand how value is created and what assets — at what price — will deliver that value.

The nine levers start with understanding your financial and strategic objectives over the next 3 to 5 years. The process then challenges executives to think critically about how their current markets, products, brands and customer segments help achieve those goals. With this information, the organization can then start to think about what technology, people and processes it would need to achieve their objectives, and what measurements would be required to ensure transactions remain on track.

Ultimately, this results in a much more holistic and integrated approach to strategy development and implementation, which, in turn, significantly improves the probability of successful integration and the achievement of the organization's financial and strategic objectives. And by framing the discussion within the context of financial and strategic ambition, we are able to help develop a robust plan that fits the company's risk appetite, competitive landscape and future customer trends.

Seeking long-term growth

Every insurer is looking for the next big growth opportunity. And in today's slow-economic growth and low-interest rate environment, it is clear that inorganic growth (via mergers, acquisitions, partnerships and alliance transactions) will continue to be a critical component of any insurer's long-term growth strategy.

We believe that as the insurance sector increasingly plans and executes its deal activity using a strategy-driven transactions lens that focuses on identifying, evaluating and integrating potential acquisition targets, and innovative partnerships and alliances, — will only make the industry stronger. ■

> Insurers are reshaping their portfolio of businesses and assets, centers of operational excellence and markets to meet future growth opportunities.

Nine Levers of Value framework and questions to consider

1. **Financial outcomes, structuring, investment and capital allocation:** What are the 3- to 5-year financial and strategic objectives?

2. **Markets:** Does the current portfolio of businesses support the financial and strategic objectives?

3. **Propositions and brands:** How should the portfolio of propositions and brands be managed over time to deliver our financial and strategic objectives?

4. **Clients and channels:** What changes to the operating model can enable customer/channel performance?

5. **Core business processes:** What are our priority business processes to deliver the financial outcomes and a winning business model?

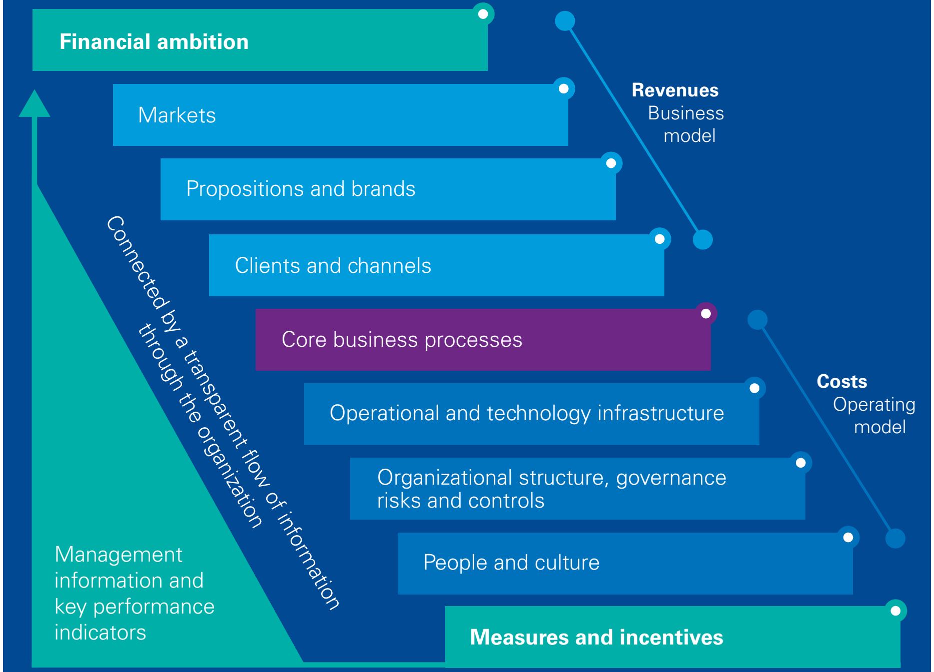
6. **Operational and technology infrastructure:** What are the priority infrastructure and technology elements that will be required to enable the strategy?

7. **Organizational structure, governance, risk and controls:** What does the organizational structure need to be to enable the strategy?

8. **People and culture:** What leadership is required to drive the transformational change, and what culture and behaviors are required as enablers?

9. **Measures and incentives:** What will you measure to monitor progress on strategy, identify issues and enable action where required?

The Nine Levers of Value methodology



Source: KPMG International, 2016

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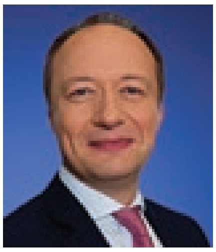
Mike leads KPMG's global insurance restructuring practice. He has worked extensively on providing advice to solvent companies with discontinued insurance business, helping clients deal with all aspects of operations including transition to run off, strategic reviews and assessing finality options.

Act now on innovation as disruption revolutionizes the rules

By **Matt O'Keefe**, KPMG Australia
By **Pascal Denis**, KPMG in Luxembourg

Matt O'Keefe



Pascal Denis

Investment management organizations are struggling to keep up with the unprecedented disruption of their markets and business models. The immediate need for strategic new approaches to innovation that will keep today's businesses on a competitive path to future growth and success has perhaps never been greater.

In the 2016 KPMG Global CEO survey of 73 CEOs from the investment management (IM) industry, nearly half of the IM CEOs surveyed, 47 percent, said they expect their organization to be 'transformed' into a significantly different entity over the next 3 years.

The IM industry is one that, traditionally, has not invested heavily in new technology, but as the rules of the game evolve so dramatically, businesses can no longer sit back and rely on the status quo. The need to address transformative innovation is rapidly rising to the top of the agenda for many organizations and their boards as they realize that the immediate challenges ahead are immense and unprecedented.

Redefined business models and new competitors continue to fuel a major push toward advanced automation involving cognitive processes and artificial intelligence to improve operational efficiency and deliver improved products and services. The impact of digitization in all sectors, meanwhile, is raising customer expectations everywhere — including IM — for instantaneous, around-the-clock access to services and information. On the regulatory front, there's the need to anticipate and respond to continuing regulation changes and compliance issues.

CEOs are voicing worries about customer loyalty

The KPMG global survey shows that CEOs in IM are certainly expressing concern over how to solve issues that will define their future. About 90 percent are concerned about customer loyalty, and nearly all, 92 percent, are worried about the impact of millennials on their business. Meanwhile, 87 percent are concerned that regulations could inhibit future growth, and 85 percent are concerned about integrating basic automated business processes with artificial intelligence and cognitive processes.

The vast majority are also worried about: competitors' abilities to take business away (84 percent); keeping up with what's next in services and products (82 percent); keeping up with new technology (81 percent); and the quality of data used in their decision-making (81 percent).

Having remained largely focused on its traditional products and processes, today's IM industry does not appear particularly well positioned for what lies ahead as digitization shifts the focus toward customer expectations and the customer experience.

The status quo no longer works. And while businesses recognize the current trends driving the need to reshape the industry, many are clearly struggling to intelligently address their immediate need to innovate and transform.

Strategic innovation will need to integrate technology, people and processes in order to deliver transformational benefits and revolutionary advancements that include:

— A vastly improved customer experience and greater customer retention overall as the competition to keep current customers and attract new ones grows fierce amid the proliferation of new players, products and services. Innovating to improve the customer experience via D&A, for example, will enable firms to better identify, respond to and eventually predict customer expectations and behaviors in areas such as service and products, delivery channels and around-the-clock access to information and accounts.

— Enhanced control of the flow of funds outside of the organization, including enhanced authentication and identity management to create a secure and trusted online experience for customers.

— Productivity and efficiency gains via automation of lower-value repetitive tasks.

— Improved oversight, quality and consistency of data to drive smarter decision-making and precise reporting for clients, investors and business partners, plus improved reporting to regulators amid increased scrutiny. Innovation in this area also positions firms possessing highly accurate and reliable D&A capabilities to eventually automate their decision-making in revolutionary new ways as regulations evolve.

— Eventual automation of data-based decision-making, via cognitive processes and artificial intelligence, in order to also enhance: operational efficiencies, service, deployment of talent, risk management and the ability to respond to customer needs and expectations.

— Improved cyber security that provides a continuous understanding of the immediate cyber-attack/financial fraud threat environment, and the ability to respond quickly by matching the firm's controlled operational environment to the current threat environment.

Given the critical benefits that innovation is expected to deliver in terms of cost and operational efficiencies, customer experience, compliance, risk management and overall competitiveness, most CEOs should be saying to themselves today: 'I can't afford NOT to innovate.'

The ultimate threat for companies that are not boarding the innovation train now could be consolidation that's already taking place in the industry: Companies that are acquiring will be the ones that are ahead of the change curve, and those being acquired will be the ones behind the change curve. There is clearly no time to lose in defining who the winners and losers will be in the race to innovate and transform.

Reassessing leadership's role in driving innovation

Where to begin with a strategic approach to innovation? Firms should be asking themselves exactly where they expect to fit in as the playing field beneath them changes, and who will they be competing with in the future?

Businesses first need to quickly figure out how they will effectively make intelligent decisions regarding their own operating model and the changes that they cannot ignore amid what is a constantly shifting field of decision points.

Secondly, firms need to quickly establish what the right capabilities are for the organization going forward. That includes potential changes to traditional infrastructure, as well as exploring new partnerships with third parties, such as Fintech, that can provide new services and solutions quickly and cost-efficiently.

As a result, some are starting to organize innovation strategies and initiatives, whether acquiring Fintech, or coming closer to accelerators or, at the very least, learning more about viable options and potential solutions that Fintech can offer.

Organizations should be re-examining various leadership responsibilities within the business, in particular what boards and senior executives should be doing to proactively drive more strategic discussions on innovation and disruption. Senior leaders will increasingly need to act as 'agents of change', constantly driving innovations that keep their business model current and competitive.

KPMG firms typically see a 'disconnect' today between leaders and their IT function that results in insufficient analysis of future business needs — including cyber security. Firms need to create new levels of alignment and collaboration between senior executives and their IT function in order to begin treating disruption and innovation as significant business opportunities rather than as 'IT problems'.

This will require senior executives to develop a much greater understanding of the unprecedented impact technology and digitization is having on businesses overall, including cyber security. As the survey revealed, many CEOs admit to feeling uncertain about how well-prepared their business is to respond to a cyber-security breach. An increased understanding of the impact of technology among senior leaders and boards can drive more informed and sophisticated dialogue across the organization on the nature of new and unfamiliar threats that could disrupt entire processes and operations.

Beyond sharpening their focus on how technology is accelerating the need for

Investment managers have no time to lose on innovation

Next 3 years will be critical

74%

Almost three-quarters of investment management CEOs said that the next 3 years will be more critical than the previous 50 for their organization amid disruptive technologies emerging.

Concerns of investment management CEOS

Maintaining market share as the industry shifts

90% of CEOs are concerned about customer loyalty

84% are worried about competitors' ability to take business away

82% are not confident they are staying on top of what's next in services and products

Ability to innovate as digital is changing the industry

85% are concerned about integrating basic automated business processes with artificial intelligence and cognitive processes

81% are not sure they are keeping up with technology

81% say that managing data is increasingly important, and 81 percent of CEOs are concerned about the quality of data used in their decision-making

Regulation continues to be a factor

87% anticipate regulation could inhibit future growth

Organizations are transforming —

47%

Nearly half of CEOs believe their organization will be significantly transformed in the coming 3 years.

Source: KPMG 2016 Global CEO Survey

innovative solutions, boards and leaders driving change will need to adopt a more holistic, 360-degree view of their business that also includes its people and processes. Assessing future talent needs, for example, will be critical to innovation that drives transformation.

It's crucial that businesses look closely at the talent that's required today to generate innovation and success tomorrow. Effective change needs to be addressed as a continuum combining technology, people and processes and leading ultimately to a culture change in which innovation is built into the DNA of every organization going forward.

The quest for better D&A can improve risk management

Intelligent new risk-management strategies are a key part of the industry's immediate innovation journey. Companies will likely need to dramatically improve risk-management capabilities amid increased scrutiny and pressure from regulators as well as from investors, business partners, customers and other stakeholders. This includes the critical question of how businesses, amid rapid change and innovation, organize and manage data oversight and data quality to ensure their data is consistently reliable for future decision-making. Progress on digital and analytics capabilities represent a crucial innovation area here, particularly as data-based decision-making keeps evolving toward automated decision-making via revolutionary cognitive and artificial intelligence technologies.

Innovative partnerships are contributing to solutions

Until now, investment managers traditionally have been concerned with growing their business and not overly concerned about competitors or new entrants taking away business. But in today's environment that's becoming a real concern, as the global CEO survey showed, as technology enables new entrants like Fintech to quickly build competing offers.

But there is growing potential to forge innovative new partnerships that offer fast, effective, cost-efficient solutions. The fact is that Fintechs are infiltrating the industry to the extent that they are no longer being viewed as competitors to be feared but as potential partners and allies. As things unfold, it's safe to say that many of them will likely become integrated into existing businesses as the industry increasingly realizes what these players bring to the table.

In many cases, firms are already trying to create partnerships with Fintechs that can drive rapid, cost-efficient transformation of traditional industry infrastructures and position organizations for the future.

Despite progress being made by some organizations, however, the industry needs to show a far greater sense of urgency toward innovation and transformation. The longer that organizations take to truly get involved, the further behind they fall. Successful organizations understand the new reality that massive digital change is underway, that the pace of change is going to increase and that they need to become very strategic about innovation now — and quickly — to remain competitive. Those businesses that turn today's challenges into opportunities can create critical competitive advantages for their future success. ■

> "Successful organizations understand the new reality that massive digital change is underway, that the pace of change is going to increase and that they need to become very strategic about innovation now — and quickly — to remain competitive."

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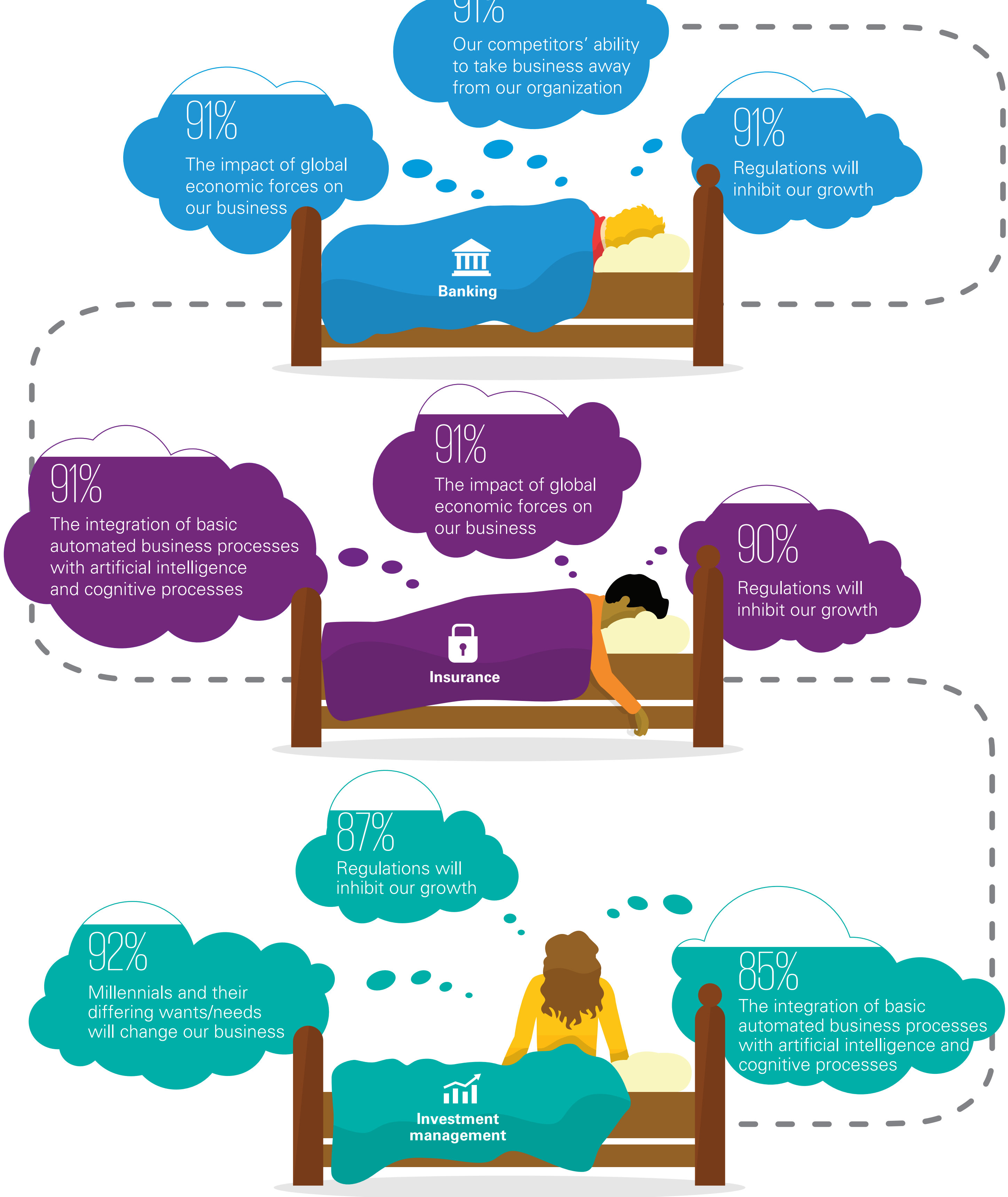
Across financial services, regulation is still seen as a top 3 concern for the next 3 years

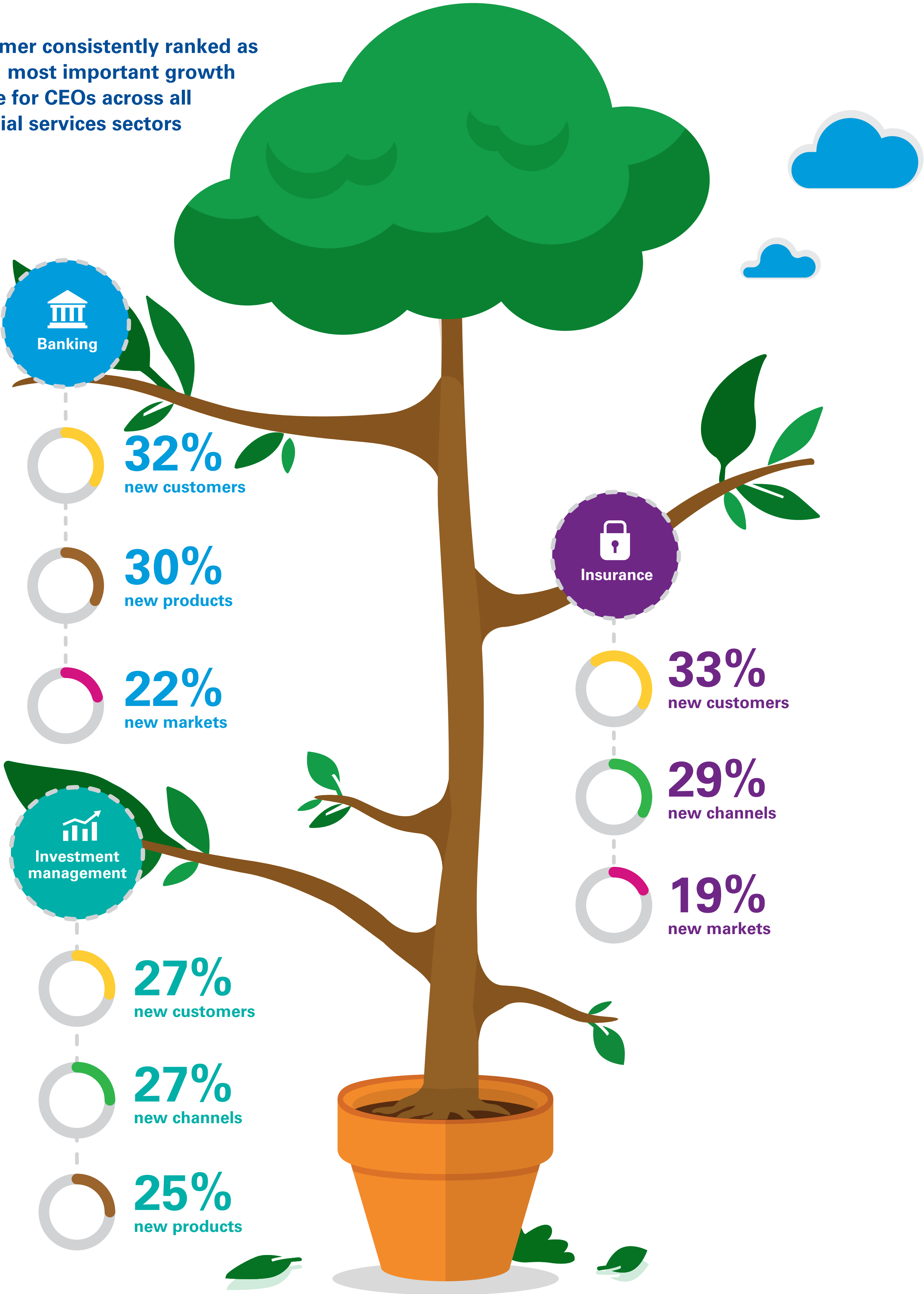
Top 3 concerns for CEOs in each financial services sector



Source: KPMG 2016 Global CEO Outlook Survey, June 2016, kpmg.com/CEOoutlook

Top sources of growth for CEOs

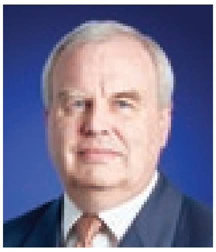
Customer consistently ranked as the #1 most important growth source for CEOs across all financial services sectors



Source: KPMG 2016 Global CEO Outlook Survey, June 2016, kpmg.com/CEOoutlook

Engaging with Brexit

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



Jeremy Anderson

In the immediate aftermath of the UK's vote to leave the European Union (EU), pessimists' worst fears were not widely reflected in the market reactions. Predictions of immediate economic disaster failed to materialize, though there were some precautionary initiatives taken, for example, to defend real estate funds from excessive redemptions and the base rate being cut by 25 basis points. But the stock market bounced back, with the FTSE100 soaring past the 7,000 mark and reports of new inward investment began to emerge. Consumer confidence seemed hardly to falter, reported to be running at its highest since one consumer survey started 5 years ago. Behind the bullish headlines though, the realities of Brexit are beginning to set in; already political divisions between 'hard' and 'soft' Brexit are being drawn.

As a target date for triggering Article 50 (the formal start of the exit process) has been announced, and as perceptions build that Brexit may be 'harder' than the financial markets would like, Sterling has fallen by 20 percent to a 31-year low. The new reality for Britain is far from clear. The key now is to be prepared.

In the financial services sector, similarly, more realistic and nuanced reactions quickly emerged. In advance of the referendum, there was extensive speculation — and foreboding — that a vote to leave would severely damage the UK finance industry, with many companies deciding to relocate their headquarters to continental Europe, for instance. The City of London, and by extension its major contribution to UK gross domestic product (GDP), was seen to be under serious threat. The argument was couched in terms of a battle for primacy between London and other centers such as Paris and Frankfurt; Brexit was a problem for the UK and an opportunity for its rivals.

After the vote, however, it was rapidly recognized that Brexit is as much a problem for the European financial system and the eurozone as it is for the UK. A shock that can cause instability on this scale means that it is also a test of the resilience of the global financial system from the US to Japan. Although Britain has remained outside the single European currency, its departure from the EU will entail a significant realignment of the global structure. Since the financial system is intimately integrated into — and fundamental to — the operation of the real economy, Britain's exit from the EU presents challenges to the whole developed world. It is in everyone's interest that these are resolved effectively.

> "Passporting gives a firm authorized in one country of the European Economic Area (EEA) the right to set up an establishment or open a branch in any other EEA state, or to provide cross-border services. If the UK were to leave the EU without remaining a member of the EEA (as it could, for example, by (re)joining the European Free Trade Area), these passporting rights would automatically lapse."

Serving the real economy

Many eurozone members face serious economic challenges: anemic or non-existent growth; high and persistent structural unemployment, especially among the young; ageing populations and unsustainable 'social models'. Tackling these issues, and promoting the growth and jobs agenda across the continent, depends on a strong and efficient financial services infrastructure. This is essential to facilitate and broker inward investment into debt and equity markets, underpin trade both within the eurozone and with its external partners, originate and distribute credit, provide risk management and risk transfer solutions, and ensure secure and reliable payments, clearing and settlement systems.

As the acknowledged European leader, to what extent can the UK finance industry continue to provide such services to the real economy in Europe after Brexit? Will it be able to adapt and deliver as before? Or will it be constrained to withdraw from a number of sectors? There are some signs that European political leaders are realizing that parochial disputes over particular components of the financial services sector — still more any desire for retribution — need to give way to a rational debate over the best ways to achieve common economic and social objectives.

Acknowledging these mutual shared interests will help improve strategy and negotiation in a number of important areas.

Capital Markets Union

For example, the European Commission's proposal for Capital Markets Union (CMU) is designed to make capital more mobile across the EU, and it could be one of the key ways that some of the Union's structural problems can begin to be addressed. The CMU initiative has been dependent on expertise based in London. If it now stalls, there is a real danger of a shortage of both debt and equity financing for European business, depressing opportunities for jobs and economic growth. It would be to *mutual* advantage if a post-Brexit settlement took account of the skills London can provide for the benefit of Europe and the wider economy.

Passporting

One of the key issues to be resolved in any negotiation about the terms of Brexit is the extent to which existing passporting rights for UK financial services firms can be retained or replicated after a British exit. Passporting gives a firm authorized in one country of the European Economic Area (EEA) the right to set up an establishment or open a branch in any other EEA state, or to provide cross-border services. If the UK were to leave the EU without remaining a member of the EEA (as it could, for example, by (re)joining the European Free Trade Area), these passporting rights would automatically lapse. If the exit negotiations fail to allow a comparable alternative, the impact could be significant — although the details will depend on a firm's particular business model.

The EU single market in financial services has been less successfully developed than that in manufactured goods. As a result, many retail firms have already set up local subsidiaries in continental territories, subject to local regulation, whose operations should be largely unaffected. Other firms will need to review their existing models of distribution, operation and infrastructure to see if they could support a two-hub European approach.

From the point of view of the real economy, Europe will continue to need a critical mass of relevant talent and expertise to support access to capital markets, wholesale funding markets and asset management services. It is indisputable that much of this expertise currently rests in London: to marginalize it could damage the remaining EU27 economies as well as the UK.

> Tackling issues, and promoting the growth and jobs agenda across the continent, depends on a strong and efficient financial services infrastructure.

Regulation

The debate over the Commission's regulatory initiatives has been unfairly colored for many years, not just during the referendum campaign, by the 'red tape' narrative: the belief that Brussels over-regulates, that the UK gold-plates these already costly regulations, and that leaving the EU would allow massive simplification — a bonfire of regulations. In fact, most regulation is uncontentious and beneficial, aimed at consumer protection, product safety or generally accepted social goals. In the financial services sector, development of the regulatory regime has played a key role — although admittedly not perfect — in promoting financial stability in the aftermath of the global financial crisis.

In this, the G20 has taken an important lead; and this is a crucial clue to the real nature of regulation in a globalized world. Increasingly, regulation is developed at a global level, and subsequently adopted by the EU. This is most obviously seen in the way that the Basel Committee accords on banking regulation have been translated into the EU's Capital Requirements Directives and then transposed into law in individual member states. But it is equally true of initiatives launched by the International Organization of Securities Commissions, the International Association of Insurance Supervisors and many other global bodies. One of the criticisms of UK membership of the EU has been that it prevents the UK having a separate and independent voice in many global forums where regulation is increasingly being formulated.

Of course, some of the Commission's initiatives in financial regulation have been seen as inappropriate or irksome in a UK context: constraints on bank remuneration and bonuses; proposals for a financial transaction tax; the impact of the Alternative Investment Fund Managers Directive in the asset management sector. But much financial regulation introduced during the last few years was not only welcome but developed with significant UK input. The House of Lords European Union Committee confirmed:

— We acknowledge that elements of the financial sector regulatory framework have proved particularly problematic for the UK. The bank remuneration provisions in CRD IV, AIFMD and the long-standing arguments about the Financial Transaction Tax are three cases in point. There are also less prominent examples, not least in relation to the retail market.

— Yet, with these exceptions, it is likely that the UK would have implemented the vast bulk of the financial sector regulatory framework had it acted unilaterally, not least because it was closely engaged in the development of the international standards from which much EU legislation derives.[1]

Conversely, the UK's decision to require banks to ring-fence their retail banking divisions from their investment banking arms, although it foreshadowed the EU's Liikanen Report on structural reform in banking, was primarily a response to domestic perceptions and will no doubt go ahead in essence.

[1] House of Lords European Union Committee, *The post-crisis EU financial regulatory framework: do the pieces fit?* HL 103 5th Report of Session 2014-15

All parties to the negotiations over the UK's withdrawal from the EU would benefit from acknowledging that there will be no massive deregulation consequences on the British side.

Euro clearing

It is possible that the European Central Bank will seek to reopen the issue of whether London should retain its primary role in euro clearing. The Financial Times notes that euro-denominated swaps trading represents a third of the global interest rate derivatives market, and that the UK takes the lion's share of the euro business. It quotes a Brussels-based think tank as estimating that this business could be worth US$1.4 trillion.[2]

After a long legal battle, the European Court of Justice ruled that there was no reason why euro clearing could not take place outside the eurozone. However, since the referendum, François Hollande has been quick to revive the argument that euro clearing needs to take place inside the eurozone to ensure effective oversight and regulation.

Once again, this is an issue of capability, economies of scale, cost and efficiency. The jobs and growth agenda, and the health of the real economy, have nothing to gain from deliberate fragmentation and transfer of existing centers of expertise.

Reactions

These thoughts may do little to guide senior executives in financial services firms as they struggle to determine the potential impacts of Brexit. But the reality is that the next couple of years will be uncertain: it is unlikely that definitive decisions on many crucial issues will emerge before the end of the process. In the meantime, however, much can be, and should be, done.

First, firms need to identify people with relevant expertise, to monitor, understand and interpret developments as they emerge. Second, they need to review and ensure they understand their own business models against a Brexit background: in which countries do they operate, selling which products to which customer segments under which authorizations? Where are profits made and which business lines are priorities to retain? Third, what would be the impact of different scenarios? When these analyses are complete, firms will have a firmer foundation to enable them to respond effectively to the outcome of the exit negotiations.

Brexit may cause complications. But like any major change, it will also bring opportunities and benefits to the best-prepared. ■

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[2] Financial Times, Battle lines drawn over London's role in euro clearing, 4 July 2016

PSD2: Don't miss the opportunity

By **Jurgen Wagner,** KPMG in the UK
By **Sven Korschinowski,** KPMG in Germany

Jurgen Wagner

Sven Korschinowski

New regulation aimed at opening up payments in Europe and the UK is creating a massive opportunity for banks around the world to improve their relevance, their business models and their revenues. So why are so few banks taking the opportunity to create real competitive advantage on the back of open payments regulation?

As a sector, we spend a lot of time talking about the relevance of banks. We fret about customer loyalty. And we worry constantly about our competitors' ability to take away our hard-won customers. We spend hours talking about the need for transformation; the drive for customer-centricity; the imperative for innovation. And we talk about priorities such as improving customer focus and implementing disruptive technologies.

So it is somewhat surprising that few (if any) traditional banks have yet recognized the massive change — and opportunity — that is being created by new open payments and open banking regulation in Europe and the UK. In fact, we believe that open payments regulation may offer banks around the world an unprecedented opportunity to create a significant competitive advantage in their markets and to reestablish relevance with their customers.

Underneath the regulation

At face value, the recent regulatory changes seem fairly benign. In Europe, the rules are basically a follow-on to the existing EU Directive on Payments Services (PSD) that helped create a single payments market across

Europe in 2007. The updated PSD rules essentially respond to technical changes and aim to create a more level playing field.

But to achieve this, the Directive calls for banks to open up access to their accounts to third parties for the purpose of consolidating account information and making payments. The EU would like to encourage emerging payment methods and so-called Account Information Service Providers (or AISPs) as a way of improving access to payments across the region. And in doing so, banks will be forced to allow other organizations — retailers, other banks and even Fintech start-ups — access to their customer data.

In the UK, the government has gone one step further, requiring some banks to also share data about products, services and customer transactions. The UK's timeline is also more aggressive. Whereas EU banks have until 1 January 2018 to comply, UK banks will need to have set up open APIs (Application Programming Interfaces) and start sharing data by the start of 2017.

Disruption and disintermediation

Fully implemented, the changes will usher in a new era of customer control and the benefits of this 'open approach' for customers is fairly clear. With the appropriate permissions, customers will be able to centralize their account information and payment options into one unified mobile application. This means that customers will be able to conduct day-to-day banking on the platform of their choice — whether it is provided by their bank or an innovative Fintech start-up.

The obvious threat for banks is one of disintermediation. Once the regulation has passed and open APIs have been negotiated, there is nothing to stop customers from shifting their entire daily banking relationship to a third party. Played out to its full extent, one could well imagine a world where Fintechs hold the customer relationship and traditional banks simply maintain the infrastructure 'plumbing' of the system; a sobering prospect for any banking executive (or shareholder) to consider.

Banks can approach the changing regulation in one of two ways. They can either do exactly what is required in order to demonstrate compliance and remain broadly competitive, or they can seize the opportunity to turn the regulation into a competitive advantage by becoming the customer's trusted integrator and service provider.

We would argue that the former is a losing proposition. Taking a 'compliance-led' position on the regulation will not win you new customers; at best it will stave off the erosion of existing customers. A compliance-led approach will likely tick all of the risk and IT boxes, but it won't mitigate the risk of market disruption. And a compliance-led approach certainly won't open up new business models, improve customer loyalty and enhance relevance.

Taking the advantage

We believe that a massive opportunity currently exists for banks to turn the regulation — and the broader shift towards open banking — into a competitive advantage. Indeed, those that are able to take a strategic view of the new regulation will likely find significant opportunities to improve their business.

Banks could, for example, create their own AISPs that provide their customers access to their other banks and payment methods, all within one (branded) mobile app. They could partner with Fintech organizations to use that data to identify trends and create new targeted customer propositions. Or they could explore ways to sell the information to retailers and other third parties.

Those that take a more strategic view may also find that the shift towards an open banking environment acts as a catalyst to their digitization agenda. Yes — the new regulations could probably be met through some new IT work-around and Band-Aids, but the better solution would be to use the regulation as an opportunity to rethink how data is used in the organization and how that influences the digitization agenda.

Maximize the investment

Three things are required for banks to make the most of the open banking regulation. First, the discussion needs to be elevated to a strategic, C-suite and board level.

"The obvious threat for banks is one of disintermediation. Once the regulation has passed and open APIs have been negotiated, there is nothing to stop customers from shifting their entire daily banking relationship to a third party."

Executives will need to think carefully about how they want to respond, what opportunities open banking creates for their organization and what risks are created through inaction. Done right, the shift towards open banking should create new business models and operating models and this must be a top-level discussion.

Banks will also need to become much more focused on creating partnerships with Fintechs in order to make the most of the opportunity. In part, this is because speed to market is of the essence; UK banks will soon have a first-mover advantage in 2017 (albeit forced by regulation) and other global banks will need to move quickly if they hope to stay competitive in their own markets. They will also need to partner with Fintechs in order to tap into new ideas, create exciting customer interfaces and control cyber risks.

Finally, banks will need to assess their own IT infrastructure, processes and controls to ensure they are capable of not just complying with the regulations but maximizing the opportunity. Some heavy lifting may be required in order to unlock additional benefits from the shift towards open banking, and banking executives would be wise to understand their resource, infrastructure and capability gaps before moving too quickly.

The race is on

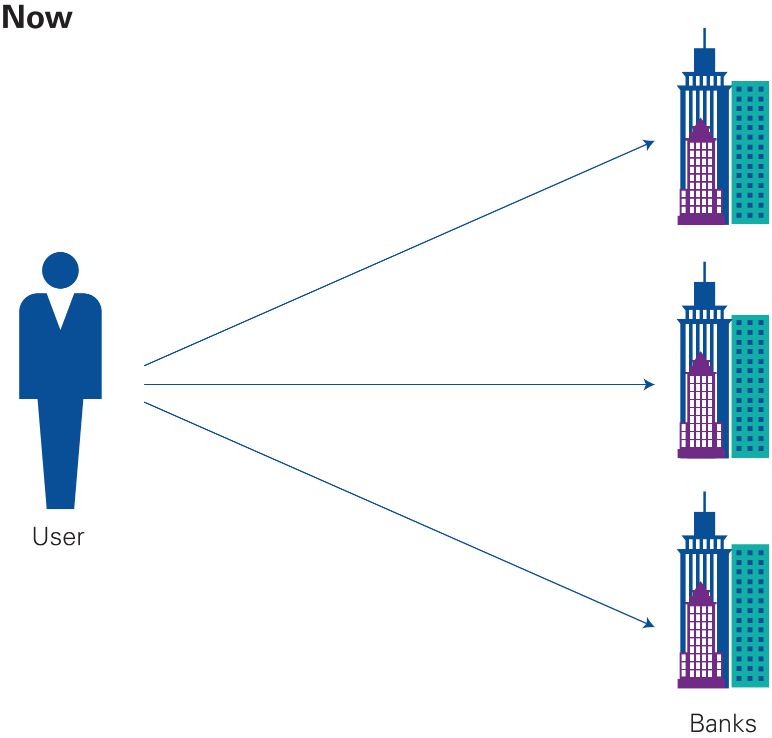
While the regulations are focused on UK- and EU-based banks for now, this is clearly a global issue. European and UK customers are not the only ones seeking easier access to their banking information and payment options. And a 'killer' concept gestated in the EU or UK could quickly be replicated in almost any other market around the world. Everybody needs to be thinking today about how the trend towards open banking will impact their organization tomorrow. The benefit of making a shift globally on this basis is significant in that it will allow banks to go beyond simple compliance in the European market alone to the larger question of enhancing customer-centricity, innovation and competitive advantage on a global basis.

Ultimately, we believe that the shift towards PSD2 in the EU and Open Banking Standards in the UK will spark a competitive race centered around owning the customer and the winner's spoils could be significant. And our view of the market suggests that it is a race that few have yet recognized has started. Our analysis suggests that early movers who use the opportunity to more broadly innovate their payments practice will gain competitive advantage, whereas those who don't will create a significant competitive gap regarding both innovation and customer-centricity. ■

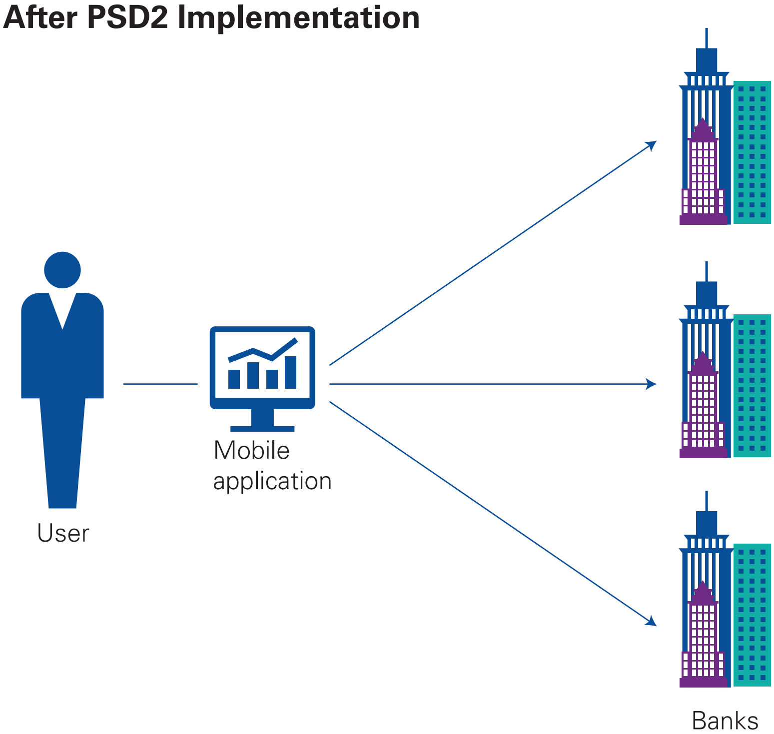
> "Those that take a more strategic view may also find that the shift towards an open banking environment acts as a catalyst to their digitization agenda."

Before and after

Now



After PSD2 Implementation



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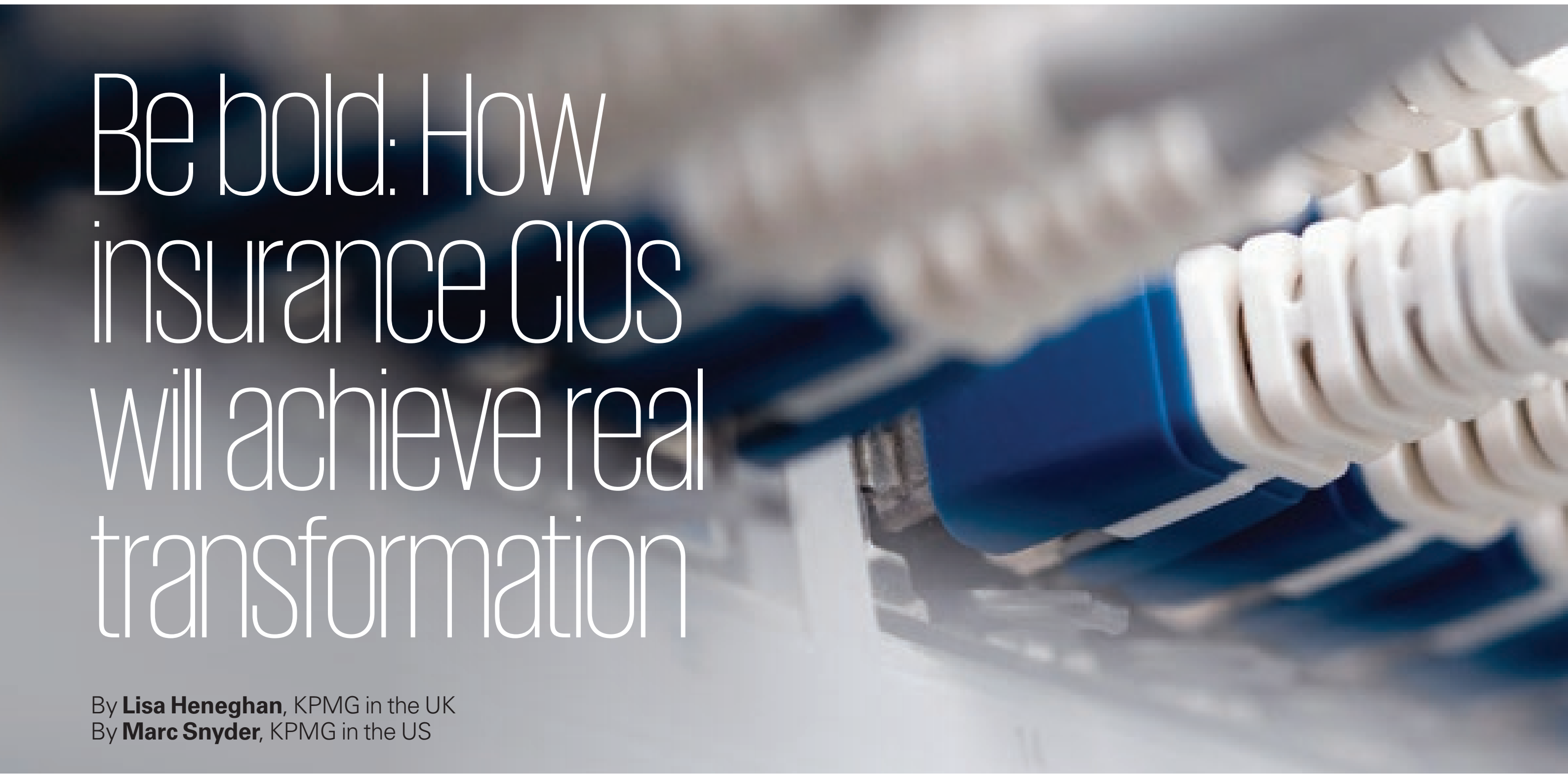
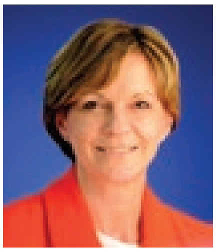


Be bold: How insurance CIOs will achieve real transformation

By **Lisa Heneghan**, KPMG in the UK
By **Marc Snyder**, KPMG in the US



Lisa Heneghan

Marc Snyder

As insurers around the world start to compete based on organizational agility and flexibility, pressure is mounting on the IT function. Many leading insurers have been working aggressively over the past several years to adapt their businesses for the digital world, including transforming their core systems and IT estate. Yet most continue to struggle to achieve the type of agility and flexibility they require to win in the market. It's time for insurers — and their CIOs in particular — to be bolder in their approach to transformation.

Standing atop a burning platform

One would be hard-pressed to deny the urgent need for transformation in the insurance sector. Heightened competition and continued low interest rate environments are putting renewed pressure on costs and margins. Evolving regulatory requirements are adding complexity and risk. Above all, customer expectations and preferences are rapidly changing. And — seizing the opportunity inherent in this disruption — new competitors and Fintech and Insurtech firms are starting to challenge the market positions enjoyed by traditional insurers. Competing as a digital player is raising the stakes and increasing the urgency.

As the external environment changes, most insurers continue to acknowledge what they have known for a long time — that their complex IT estates and platforms are inhibiting their ability to transform their businesses to compete in the digital world. Many large insurers have gone through significant inorganic growth and operate a complex patchwork of legacy infrastructure, applications and core systems that are too fractured and too rigid to support the new digital needs of the business.

Many are rethinking their IT operating models. Having moved aggressively towards outsourcing over the past decade, some now find themselves constricted by their cost-driven service agreements. And few seem to possess the appropriate skills and capabilities to drive sustainable innovation across the enterprise.

A growing appetite for change

Recognizing the massive transformation barriers and challenges they face, insurers have been taking dramatic and aggressive steps to catalyze fundamental change across their IT organization and estate.

Most have focused on improving the agility and responsiveness of their IT delivery capability. In fact, in a recent global survey of 160 insurance IT leaders conducted by Harvey Nash and KPMG International, almost seven out of 10 CIOs said they were implementing Agile methodologies within the IT function. More than a third of our respondents said they were applying a 'multi-modal' IT model. And a quarter said they were exploring strategic partnerships that might improve their overall agility and responsiveness.

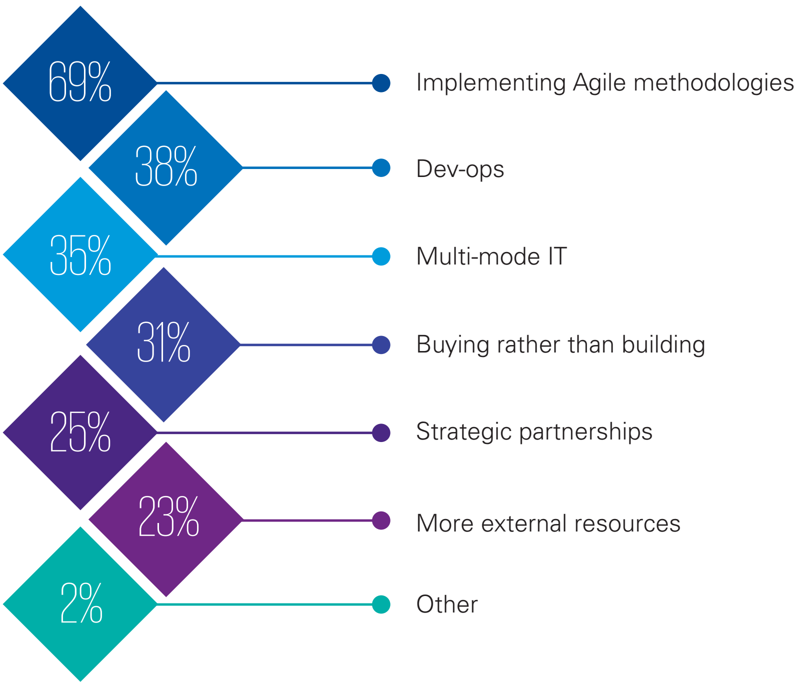
At a country and business level, we have seen insurers undertake significant change programs to transform the IT estate. Indeed, we are working with a number of industry leaders who are literally tearing out and replacing their entire core systems and moving platforms to the cloud to deliver the flexibility and agility they know the business requires in order to win in the new environment.

What is Agile?

Agile is a 'methodology' that integrates business and IT together to help organizations develop technology-enabled business capabilities and solutions at pace. More than just a set of IT principles and practices, Agile requires a supportive culture, robust processes and new capabilities to deliver value.

Given that Agile methodologies tend to deliver improved business agility, there is often confusion around the use of the word. In general, the market tends to capitalize the use of the word 'Agile' when referring to the methodology and to use the lowercase when using 'agile' or 'agility' as an adjective.

What steps are you taking to become more agile and responsive?



Source: Harvey Nash/KPMG Survey, 2016

Struggling to achieve scale

The problem is that — while there have been some remarkable successes and improvements in business agility and flexibility — few have managed to successfully and sustainably scale their transformation programs up to an enterprise or group level. Many businesses have successfully implemented new core systems within business units such as claims. However, when it comes to creating an end-to-end integrated transformation, success is hard to find, despite significant investments. The level of technology integration required, together with business process change and shift from a functional view to customer journey perspective combine to create a level of complexity that is causing challenges.

Our conversations with insurance business and IT leaders also suggest that many organizations are facing challenges becoming

Making it real: case study

A global composite insurer has strategically invested over the last two years to significantly simplify their technology estate to support digitization. Creating a clear vision for a simplified and standardized IT architecture, this organization has driven down their annual IT run costs by more than US$50 million through initial data center rationalization and has created a foundation to support an Agile technology capability.

The program will ultimately result in a simplified architecture where more than 70 percent of users are supported by virtual desktops, data centers will be reduced by a factor of 10 and servers will be more than 80 percent virtualized.

Building a clear vision from the start with a strong mandate from the board has been an essential factor in driving this success.

an agile organization. In some cases, this is simply due to traditional mind-sets and ways of working. But in many other cases, our experience indicates that insurers may not be applying the right level of rigor or extent to which they apply Agile approaches to ensure they deliver meaningful results.

Agile development approaches can certainly help move an insurance business towards faster and more responsive models and capabilities. And they can help create a more collaborative and cooperative environment between IT and the business. But to achieve the benefits of Agile at scale, insurers need to establish the fundamentals that underpin Agile and provide the structure to drive real results (including the right methodology, critical path, rigor, culture and infrastructure architecture). They must recognize that truly becoming agile calls for new ways of business and IT people working together.

A more strategic purpose

However, our view of the market suggests that a number of insurers are now making significant progress in their transformation initiatives, driven largely by CIOs and IT functions that are fundamentally reinventing the foundations upon which the business operates.

In part, this is due to a tangible shift in expectations for the IT function. Insurance CIOs and IT leaders recognize that the business now expects them to not only manage costs, but also help drive growth. According to our survey, 56 percent of insurance CIOs say their management board is looking to IT to increase operational efficiencies. At the same time, however, 48 percent also say that the business is looking to IT to help develop innovative new products and services. More than half (51 percent) expect IT to deliver sophisticated business analytics and intelligence to the business.

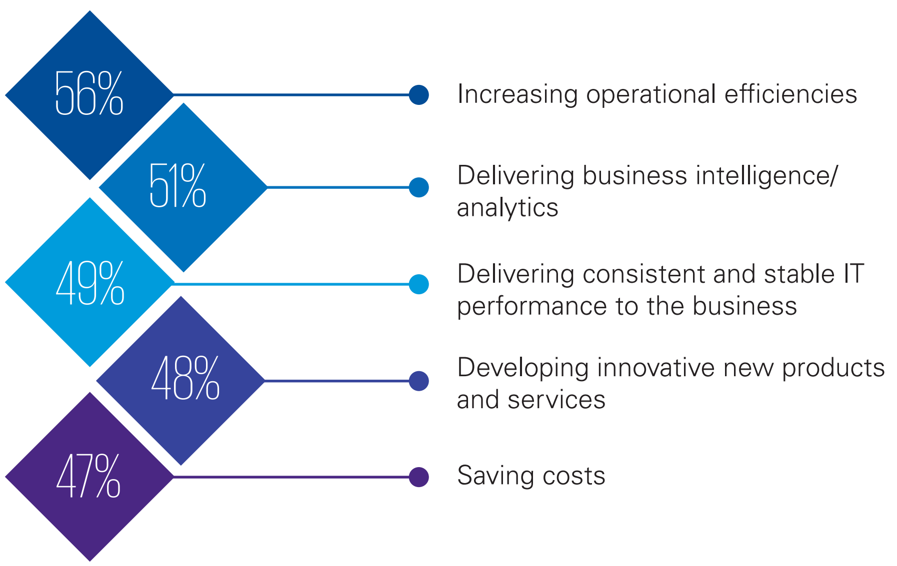
Insurance CIOs and IT leaders recognize that their role is less about controlling the entire IT estate and more about collaborating and building trusted and value-adding partnerships with the business and external service providers. Leading CIOs no longer fret about the 'decentralization' of IT spend into the business. What they are really worried about is whether they are helping their businesses understand and gain access to digital business capabilities while also providing the right core IT environment and service levels for the business to succeed and innovate in a safe and secure manner.

Building the foundation for transformation

Our experience working with leading insurers suggests that CIOs and IT leaders (with the support of their executive committees) will need to move more aggressively and decisively if they hope to scale up their transformation initiatives and deliver technology that supports growth.

To start, insurers will need to be ruthless about rationalizing their current IT estate.

What are the key business issues that your management board is looking for IT to address (top 5)?



Source: Harvey Nash/KPMG Survey, 2016

Every effort must be made to reduce IT complexity, simplify systems and processes, and improve accessibility and agility. Demand from the business for variation will need to be rigorously challenged and assessed in concert with the business to drive consistency and limit unjustified variety. And every system and process — from policy and administrative platforms through to claims processing and customer data — will need to come into scope.

Insurance CIOs and IT leaders will also want to take a hard look at their current sourcing agreements and partnerships to see how they might start to create a more balanced relationship with their providers. The reality is that traditional insurance outsourcing agreements had been driven primarily by cost considerations and did little to support agility or innovation. Today's leading insurance CIOs are starting to engage with their providers in a different way, looking to rebalance the relationship to drive new behaviors that balance agility, cost variability and innovation.

Time to be bold

By simplifying the IT estate and reviving their control over their supplier portfolio, insurance CIOs and IT leaders should be able to move towards enabling many of the technologies and approaches that enable sustainable transformation in the sector. Agile and dev-ops approaches, for example, require automation and thrive on simplification.

Digital labor (including robotic process automation and cognitive automation) is starting to find its way into the technology toolkit for insurers and offers new ways to improve quality and responsiveness at lower cost. Connecting these solutions with legacy systems will certainly be facilitated by having a less complex IT estate. We are seeing some real-life examples of organizations starting to practically address this topic:

— Large life insurer has established Robotic Process Automation Center of Excellence to identify opportunities to digitize labor.

— Large global P&C insurer is integrating cognitive capabilities to streamline underwriting processes.

— Finance function of a global P&C carrier is deploying Class 1 rules based on automation to drive efficiencies.

— Global multiline insurer is leveraging automation to aid personal lines subrogation recoveries.

— Global provider of insurance, annuities and employee benefit programs has identified opportunities to automate HR functions and is currently looking to expand the program to its core insurance operations.

Ultimately, we believe that insurance CIOs and IT leaders will need to be bolder in their objectives and more ruthless in their execution if they hope to deliver agility and flexibility to the business. They will need to think more strategically about how they unite the strategic with the functional to build the business case for, and deliver the execution of, a fundamental IT transformation. And they will need to focus on building collaborative business partnerships across the organization.

The need for IT transformation in the insurance sector is clear. And the appetite for a more agile and flexible IT environment is high. With some leaders now starting to make significant progress, it seems clear that success will go to those CIOs and insurance organizations willing to be bold. ■

> “The reality is that traditional insurance outsourcing agreements had been driven primarily by cost considerations and did little to support agility or innovation.”

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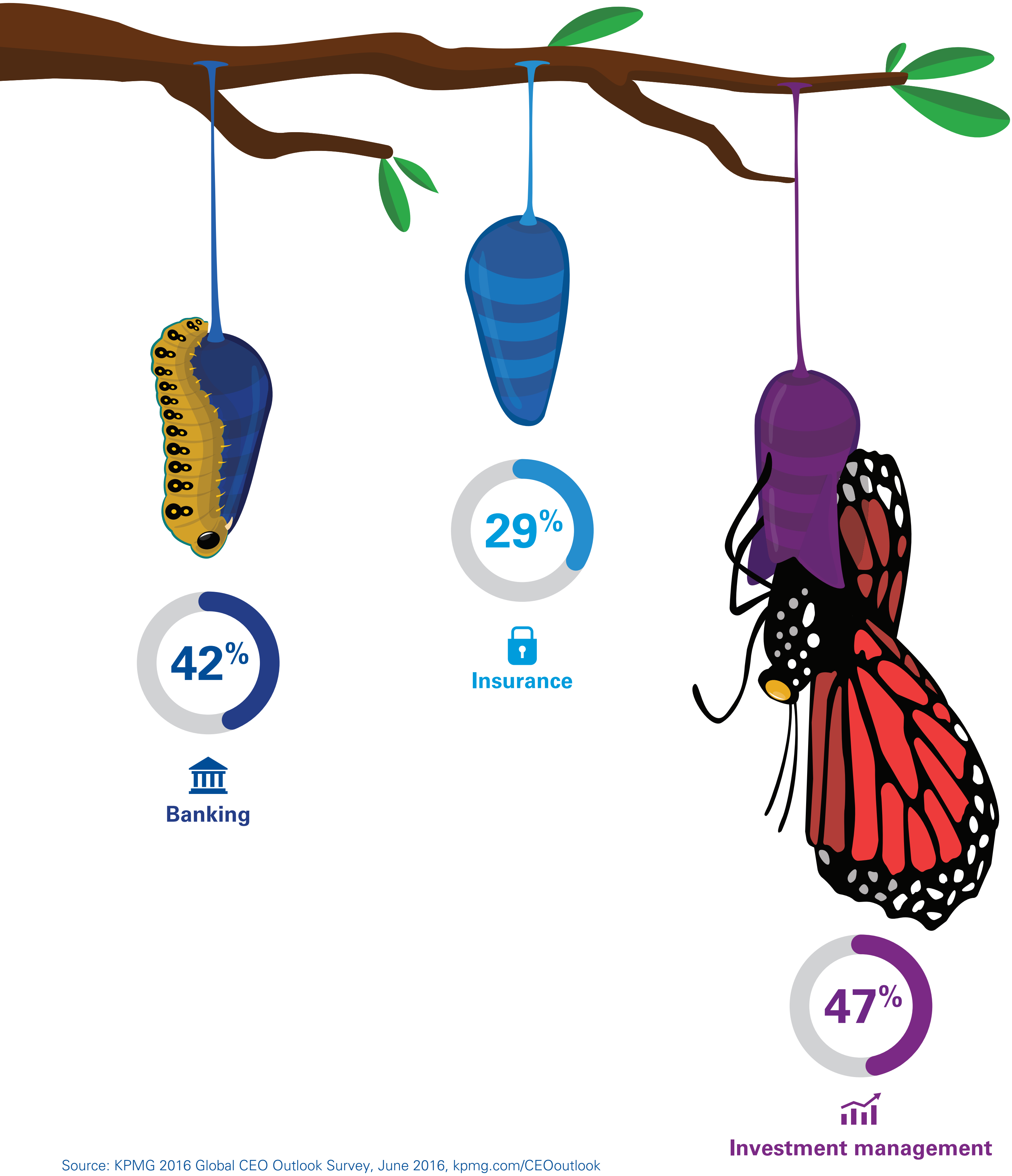
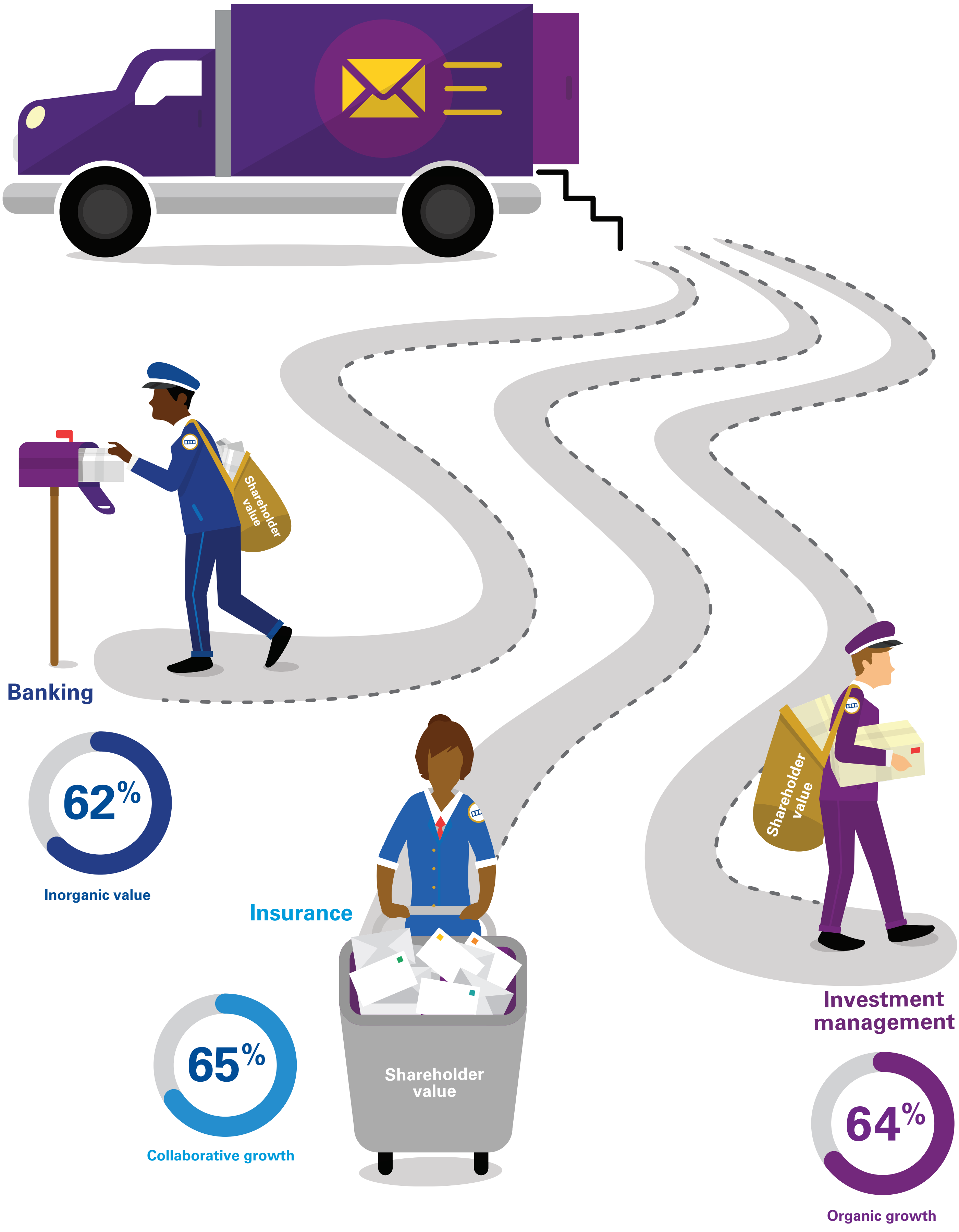
The number of CEOs who believe their company will be transformed into a completely different entity over the next 3 years.



Source: KPMG 2016 Global CEO Outlook Survey, June 2016, kpmg.com/CEOoutlook

What CEOs believe will deliver top shareholder value over the next 3 years.

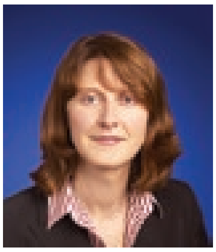


Source: KPMG 2016 Global CEO Outlook Survey, June 2016, kpmg.com/CEOoutlook

A catalyst for change:

New standards create opportunities for finance and actuarial transformation

By **Brid Meaney**, KPMG in the UK
By **Martyn van Wensveen**, KPMG in Malaysia
By **Gavin Lubbe** and **Doron Melnick**, KPMG in Canada



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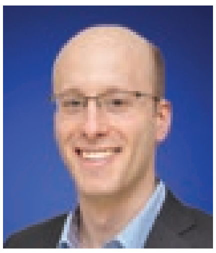

Doron Melnick

With significant regulatory, accounting and actuarial changes on the horizon, many forward-looking insurers are thinking about how they might use these changes as the catalyst to transform their finance function to become a better business partner and drive value for their organization.

In today's complex and highly competitive insurance markets, finance and actuarial functions often stick out as the 'poor relation' of the insurance back office. With under-invested systems, bolted together following a history of acquisitions, maintained by the IT equivalent of duct tape and chicken wire, many functions struggle heroically to achieve their daily and quarterly objectives.

At a handful of insurance organizations, however, these functions are no longer the poor relation but are positioned at the beating heart of the organization — the source of inspiration, leading practices and valuable insights that drive growth and improve operational efficiency. These finance functions are actively improving the health of insurers' balance sheets and powering exciting new ventures and future growth.

The business is looking for a partner

By now, the imperative for change is clear to any insurance executive. For some, the key driver will be a deep desire to improve costs and drive efficiency across the wider organization. Others may be more focused on transforming the finance function to help drive customer-centricity and growth. And most insurers are under pressure to comply with new rules and regulations in many of their key markets.

> Most damningly perhaps, only around one in five CEOs said that their CFO already plays a critical role in supporting the executive team.

Increasingly, CEOs and business leaders are looking to the finance function for help in achieving those objectives. But according to a survey of insurance CEOs conducted by KPMG International,[1] few think that the finance function is ready to take on the task. Only around half of the CEOs in our survey viewed their chief financial officer (CFO) as a valuable business partner, and only one in three felt that their CFO understood the challenges facing the CEO. Most damningly perhaps, only around one in five CEOs said that their CFO already plays a critical role in supporting the executive team.

Looking for a reason to change

To be fair, most finance and actuarial functions are struggling to keep up with current demands from the business. Outdated technology and siloed policy administration systems are slowing down response times and soaking up significant resources. Growing competition for experienced professionals accelerates staff turnover and drives up costs. And many are still recovering from recent regulatory changes catalyzed by Solvency II in the EU and a wave of regulatory developments in other jurisdictions. Few have the appetite for more disruption.

Our discussions with insurance sector finance leaders suggest that past experiences and current perceptions are dampening enthusiasm for new transformation initiatives. According to another recent survey of insurance leaders by KPMG International[2], almost two-thirds of all insurance organizations have started at least one major transformation initiative in the past 2 years. But the same survey also shows that a full 57 percent of all respondents considered their most recent transformation to be 'far from ideal'. Many are feeling somewhat burned by their experience.

The problem is that — in today's highly competitive and customer-centric insurance markets — yesterday's finance function is increasingly a barrier to growth for tomorrow's insurance organization.

Barriers to change are crumbling

The good news is that many of the traditional barriers to transformation are rapidly falling away. CFOs are being encouraged by their executive teams to step up to the plate and new finance-driven initiatives — such as enterprise performance management — are being warmly received in the executive suite. While capital for new projects may be tight, CFOs that are able to create a business case for transformational change that demonstrates alignment to the organization's growth objectives should find budgets and executive support to be more forthcoming than in the past.

Technology is also easing the pain of change. Today, technologies sold as a service, such as cloud infrastructure, help companies to vastly accelerate change and avoid fixed-cost hardware commitments via pay-as-you-go arrangements. Similarly, new software applications for data management and self-service analytics make it easier for the business to mine data for insights and lessen dependence on overburdened IT departments.

Making it real: case study

A multinational insurer teamed with a KPMG member firm to deliver a full transformation of their life insurance actuarial valuation process in all business units across two continents. The key objectives were to eliminate complexity and unnecessary cost in the current operations by establishing a more globally consistent approach to valuation through changes in business process, valuation systems, data management and organizational structure. As well, to enhance flexibility to respond to emerging business needs. KPMG worked with the client to deploy the solutions in a secure and scalable cloud-based computing infrastructure, representing a significant innovation in the industry. The insurer realized the following benefits:

- simpler valuation processes and controls
- substantially reduced workload in valuation operations
- more readily accessible data and more time for actuarial analysis during the quarterly close because of the significantly faster production process
- lower unit costs for computing and data storage.

Just as important, the organization is better positioned to respond to upcoming regulatory and financial reporting changes, which require more sophisticated actuarial modeling and analysis within the same time frames as today's quarterly and year-end reporting cycles.

[1] *The View from the Top*, KPMG International, 2015
[2] *Insurance Reinvented*, KPMG International, 2016

Questions to consider:

- How will the systems architecture need to change given the new calculations and their consequences for data storage (such as grouping contracts into cohorts with similar characteristics in order to calculate the contractual service margin, and deriving details of current interest rates)? What broader opportunities will be created by these systems improvements? What else can we fix — while systems are opened up for change — that will benefit the business more broadly?
- How to bring together accounting and actuarial capabilities to build the sources of earnings (SOE) analysis, in terms of organizational design and controls over data?
- How to create a single source of truth for operational and financial data which will be the common starting point for the business, finance, actuarial and risk and capital management?
- How to enable the business to efficiently drill into results to understand the drivers of change at a granular level?
- How to enable what-if scenario analysis for the purposes of business planning, capital and management, alliances, acquisitions and carve-outs?

Welcoming the arrival of new standards

With the upcoming introduction of new reporting standards[3] in countries around the world, insurance CFOs now have a strong motivation and catalyst for transformation. In many markets — where local standards mandate IFRS for all public reporting by insurers — the impetus for change is unavoidable and insurers are starting to recognize that the implementation of these new standards and regulatory requirements will — at the very least — require significant change in their current finance and actuarial operations.

Often these initiatives start from the perspective of how numbers that are externally reported, such as earnings and capital, will change; but very quickly these conversations lead to much more fundamental questions surrounding the core business drivers: topics such as earnings trends, growth opportunities and the target operating models required to deliver these outcomes. Ultimately, the broad scale and complexity of operational and technology impacts become apparent. And this is when insurance executives tend to realize that these changes are actually an opportunity to transform their finance function.

These changes highlight some of the historical root causes of malaise in the finance function: myriad data sources and patchwork solutions to bring data into accounting and actuarial calculators; inconsistent valuation approaches and data definitions (e.g. product hierarchies) in different business units; loss of granularity and the ability to drill-down as results are aggregated from the line of business or operating entity up to the Group; and limitations in capacity (people, computing and otherwise) to support the Group in 'what-if' analysis for business planning, capital management, acquisitions, distribution arrangements and other strategic decision-making. Finance leaders will need to take a hard look at their systems and data architecture, business processes, controls and organizational design, in order to extract the best possible value from the investments to comply with these changes.

Key success factors for finance transformation

With the stage set for transformation in regulation and external reporting, finance leaders should now be thinking seriously about how they might take advantage of the current environment to become a better partner to the business. Clearly, every organization will take a slightly different path depending on local requirements, the demands of the markets in which they operate, their capabilities and their current infrastructure.

> "With the stage set for transformation in regulation and external reporting, finance leaders should now think about how they might take advantage of the current environment."

[3] In particular, the long-awaited delivery of the forthcoming Insurance Contracts standard by the International Accounting Standards Board's insurance contracts project and the introduction of Principle-Based Reserving and Targeted Improvements to the Accounting for Long-Duration Contracts in the US.

However, our experience in helping leading insurers achieve transformational changes within their finance and actuarial teams has raised a number of key success factors that we believe are critical to designing and delivering successful finance transformation in the insurance sector.

1. **Be bold and visionary:** This is an opportunity to fundamentally transform the way the function operates. Take bold steps, make hard decisions and set out a vision for the future that drives engagement and encourages support from across the function — and from the business.

2. **Focus on the business outcomes:** The goal of the transformation cannot be to simply implement a new technology or fulfill a compliance requirement. Finance leaders will need to design their new operating model and processes with the business outcomes they need to deliver at the front of their minds in order to become a better business partner.

3. **Don't let technology drive the decision:** Remember that technology is an enabler of transformation, not a driver. Successful transformations identify the right mix of technologies to enable the target operating model instead of creating an operating model that enables a technology.

4. **Break down the program:** Massive transformation projects can be difficult for employees to digest and complex to manage and deliver. While the overall initiative must remain focused on achieving the long-term vision, insurers will want to break down their projects into manageable steps and retain the ability to innovate and adapt to change.

5. **Deliver quick wins:** Drive immediate improvements, demonstrate value and achievability and lift morale by planning for a series of quick wins throughout the process. Recognize and celebrate successes as project milestones are achieved.

6. **Measure progress:** Ensure you have strong discipline around measuring progress — both from a cost and from a benefits perspective — on a regular basis and be ready to make adjustments if projects are not delivering their expected goals.

7. **Look at the bigger picture:** Insurers that approach these changes purely as a shift towards new accounting standards and regulatory requirements will likely miss significant opportunities to drive real business value. Go beyond the technical considerations to think about the strategic impact — for the business and for investors.

8. **Expect the goals to shift:** Even with the advantages of modern technology and agile approaches, transformation can still take time and much can change in the internal and external environment before the 'end point' is reached. Set clear goals and objectives but prepare to pivot or reassess the strategy if required to adapt to change. ■

Be a better business partner

Ultimately, we believe that finance leaders and CFOs should be looking at the implementation of these changes as an opportunity to rethink their operating models, refresh their organizational design and create stronger alignment to the business. And we know that the cost, complexity and barriers to transformation are rapidly falling away. As such, we believe there is no better time for finance leaders and CFOs to start thinking about finance transformation.

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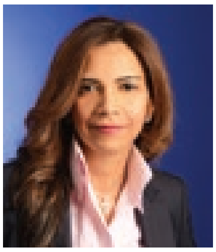
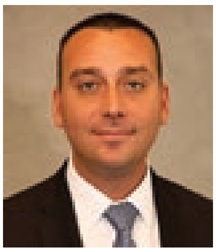
Cyber security moves towards a more resilient model to keep pace with a growing digital business

By **Bia Bedri**, KPMG in the UK
By **Charles Jacco**, KPMG in the US



Bia Bedri



Charles Jacco

Financial services firms are struggling to get on the forefront of cyber security in the face of increasingly frequent and sophisticated attacks. At the same time, they are also trying to protect an ever-increasing number of devices and data as the business goes digital, deal with shrinking security budgets due to cyber fatigue at the top of the house and respond to increased regulatory scrutiny aimed at minimizing risks that continue to strain the business and IT.

Complicating these major challenges for many firms is also the gap that often exists today between business leaders and their IT function in terms of a coherent, organization-wide strategy designed to anticipate, identify and respond to ever-evolving cyber security risks and needs.

"There is a rift or gap today between business leaders and their technology teams, and this is one of the biggest problems we are seeing in terms of addressing and responding strategically to critical cyber security issues," says Bia Bedri, a Partner specializing in Banking and Capital Markets Cyber Security for KPMG in the UK.

Technology security experts within organizations are tightly focused on cyber defense from a technology perspective but typically lack a 360-degree view of what may also be needed from the people and processes perspectives to heighten cyber security. Until recently, boards and executives have largely remained content to approve rising tech budgets without having a truly clear understanding of overall business risk and need from a security perspective. Now, they are demanding answers to fully understand where the funding has gone and questioning whether the spend has actually reduced the firm's overall cyber risk.

"Without guidance from the top and business engagement on priorities and risks, the IT function can be unclear about where the business overall needs to spend money to address evolving cyber risks that impact the entire organization," says Bia. "CEOs and boards in the past have simply devoted larger budgets to cyber security, but now they are increasingly asking, 'How is the money spent reducing my risk?' I think that's perhaps the biggest problem in cyber security today — that breakdown that fails to take the view that security is now a key business issue, not simply an IT issue."

Business leaders have traditionally seen security as a technology issue to which they continue dedicating budgets, staffing and resources, but with attacks growing more frequent and sophisticated by the day and as regulatory pressures place new focus on security solutions, executives and boards now need to be better engaged and understand their responsibility with regards to cyber security.

IT teams are looking at controls, technology and platforms without clarity or input from the business's leaders on what's key to the overall business in terms of precisely what they're protecting and why. Ultimately, you end up with a situation where no one can accurately respond to key questions like 'What's my current cyber security risk?' and 'How can I manage it all quickly and effectively?' If financial institutions hope to make real progress that uses their budgets, resources and time efficiently, they will require a more strategic approach.

Security needs to encompass people, processes and technology

Becoming a resilient, cyber-smart organization will require financial firms to ensure that their people, processes and technology are all strategically focused on cyber risk and appropriate solutions.

"That's really the end game here — adopting a more holistic view of cyber security risk that encompasses people, processes and technology," says Charles Jacco, Principal, US Cyber Security Services Financial Services Leader. "Some organizations will be better from a technology perspective, others may have a better view of cyber security risks in terms of processes, while others will have a really good culture around security awareness. But I don't know that anyone has mastered the need to be fully centered on all three areas — people, processes, technology — when it comes to cyber security. That's really where we see room for improvement today in

> “Security is now a key business issue, not simply an IT issue.”

A global financial organization demonstrates how to raise the bar on cyber security

Financial organizations are increasingly facing sophisticated external threats such as financial crime, ransomware, DDoS attacks and customer data theft. This, combined with internal threats that include rogue trading, fraud and misconduct, is forcing financial institutions around the world to dramatically sharpen their focus on the need for comprehensive new cyber security strategies.

Bia Bedri, a Cyber Security Partner at KPMG in the UK, says: "We were able to help one global organization, following a costly trading incident costing billions of dollars in losses and a significant hit to its brand in the marketplace, develop a strategy that involved rethinking its entire approach to information security."

In its efforts to precisely identify and understand the range of the threats and cyber risks it was facing, the bank undertook a significant challenge to address 'identity access management'. Given the complexity of the problem, the bank initially struggled to develop a strategic information security risk-management program that would include a response to questions raised by regulators.

With help from KPMG's cyber security specialists, working shoulder to shoulder with the organization, the bank ultimately developed a remediation plan that would transform its information security across the organization. KPMG helped the organization deliver the program by designing, implementing and embedding new controls that covered data and business systems operating in more than 30 countries in order to meet business and regulatory requirements.

The results were remarkable. The bank not only reduced risk significantly while optimizing many of its processes, it also enhanced its status in the marketplace by being viewed as an industry leader on cyber security.

The Global CEO Outlook survey by KPMG reveals that, with disruptive technology and marketplace forces redefining business models and blurring traditional lines between competitors and industries,

72% of CEOs believe the next 3 years will be more critical for their industry than the last 50.

Nearly half of the close to 1,300 CEOs surveyed also said their organization will be significantly transformed in the coming 3 years.

most cases. Organizations need to move away from the traditional cyber defensive posture and focus on enabling the business to become a resilient organization."

Unfortunately, there is no time to lose on the need to adopt a strategic approach that goes beyond IT to engage the entire organization.

Cyber security, meanwhile, has become the leading risk concern among CEOs, with nearly three-quarters admitting that they do not feel fully prepared for a cyber event.

Three-quarters of CEOs also say they are concerned about keeping up with new technologies and many are voicing worries about customer loyalty amid the wave of change. KPMG's *Consumer Loss* Barometer, meanwhile, shows that business leaders have good reason to be worried about consumer loyalty as new business models emerge: a third of consumers surveyed say they would consider moving an account in the event of a hacking incident or security breach that affected them.

"Cyber security is a huge issue today, and the increasing focus of customers, governments and regulators is making the need for strategic approaches and immediate solutions even more intense," says Charlie. "Cyber security has to be a top priority for CEOs today. This is a problem that is not going away. If you don't have the culture, the people, the processes and the technology all aligned on everything that you do as a bank or insurer, in terms of understanding cyber risk and security, it doesn't matter what you automate. Organizations need to get the whole concept of a resilient organization in place. And that really needs to come from the top down."

IoT increases need to take a 360-degree organizational perspective

Raising new alarm bells on the need to heighten cyber security is the advance of the 'Internet of things' (IoT) and the impact of billions of new connections between everything from mobile phones, cars and transportation systems, to home appliances, wearable devices and much more.

Soon, for example, people's credit card data will be stored on many more devices, beyond simply a phone or tablet to include cars, appliances, wearables and so on, making it critical for confidential customer data to remain protected in a more open or accessible environment. The whole IoT concept means everything will be interconnected and security controls need to be in place as those technologies move forward. This is a very significant challenge for financial organizations and their need to protect critical customer data.

Some organizations understand the importance of the issue and how it's growing in complexity, but many are having difficulty unravelling it all in terms of knowing what to do next.

Solving the cyber security dilemma as the ecosystem expands is at least as challenging for insurers as they are typically 'less mature' than banks today in developing cyber security capabilities. The fact that they have more ground to

"Soon, for example, people's credit card data will be stored on many more devices beyond simply a phone or tablet to include cars, appliances, wearables and so on, making it critical for confidential customer data to remain protected in a more open or accessible environment."

cover on cyber security has not escaped the scrutiny of regulators in places like the US and the UK, where they are increasingly turning their attention to this sector in addition to banks.

"In the UK, for example, regulators have started paying far closer attention to the insurance sector in the last 6 to 12 months. And many firms are discovering that they don't understand or have the capability to respond to the security issues that are arising," says Bia.

All things considered, today's financial organizations remain stuck in a 'reactive mode' when it comes to data attacks or security breaches, and they need to take a far more proactive approach aimed at anticipating and preparing for potential attacks before they occur.

When banks have a breach, they spend a lot of money trying to understand what the breach was, how it happened, what the customer impact was, what the business impact was. But they tend to cover the same path every time, regenerating the same process or reaction, as opposed to pursuing a response and assessment that positions them to be ready and prepared for future scenarios that are very likely to occur.

Looking at people, processes and technology

How then can financial institutions best begin pursuing a much more strategic approach to cyber security that goes beyond throwing money at technology, to instead create a 360-degree view encompassing people, processes and technology?

CROs and CIOs should be collaborating closely today to gain a clearer understanding of who owns what when it comes to cyber security policy, while recognizing that it's no longer simply 'an IT problem' but one in which the CRO and the board all need to be involved. Working together, they can start by identifying their top 10 cyber risks and exploring the complicated processes and technologies that need to be addressed, as well as what that is going to cost.

In some cases, financial firms are already pursuing strategic solutions quickly and efficiently via innovative partnerships with financial technology firms (Fintechs) that can advance or complement today's well-entrenched banking infrastructures to deliver faster and better services in the face of emerging marketplace competitors.

Ultimately, concern and awareness about cyber security need to be ingrained in every business and no longer treated as merely an IT problem. It is a business problem, and it is crucial that businesses understand that the issue must be addressed more from a cultural perspective. There is a fine line between simply 'reacting and adopting' technology and 'thinking ahead' strategically in order to create a secure business environment amid tremendous ongoing changes. ■

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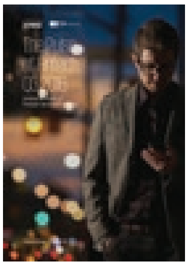

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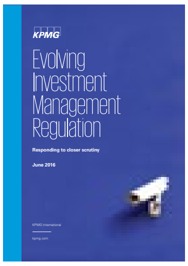

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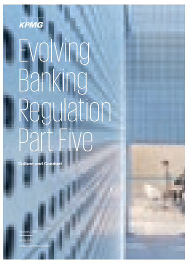

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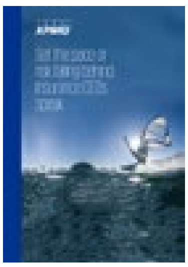

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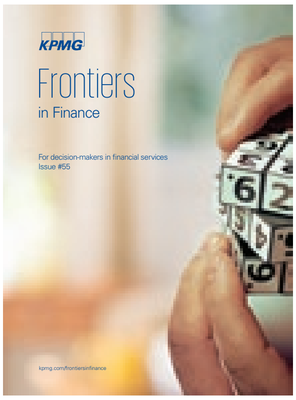

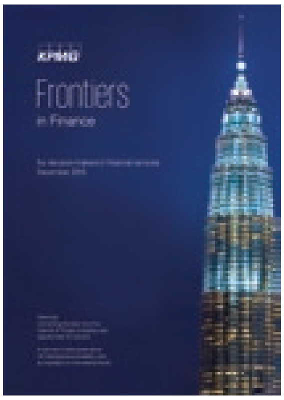

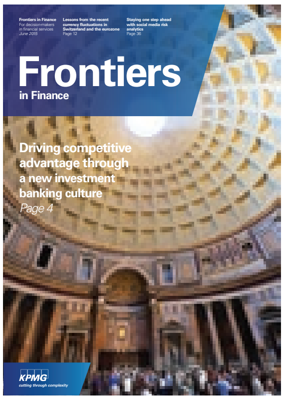

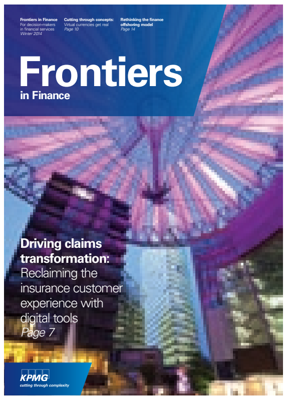

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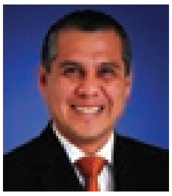

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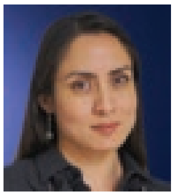

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