Advisory services for banks and other financial institutions
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Current trends in the banking sector of Azerbaijan

1. Market consolidation

2. Growth in penetration of banking services and less potential for extensive development of the client base

3. Higher expectations from clients regarding the quality of services

4. Increase in competition for clients and emphasis on organic growth via existing clients

5. Development of remote banking and optimisation of internal IT infrastructure

6. Toughening requirements regarding quality control and risk management
Description of selected services provided
Identification of long-term development direction, implementation of top management’s vision

**Project example: Development of IT strategy and target operating model**

- Priority development areas were identified based on market trends and the current position of the entity
- A modern IT strategy and optimal IT governance implementation plans were developed
- Increase in compliance with industry standards over five years

<table>
<thead>
<tr>
<th>Our team’s experience</th>
<th>Clients</th>
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</thead>
<tbody>
<tr>
<td>IT strategy and banking sector analysis in Azerbaijan and other CIS countries, formulating development forecasts and identifying main trends</td>
<td>Central Bank of the Republic of Azerbaijan</td>
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<tr>
<td>Formulating IT development strategies: selecting priority regions and client segments</td>
<td>Top 20 local Bank</td>
</tr>
<tr>
<td>Formulating the IT development strategy and target operating model for the Central Bank</td>
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**Approach and Results**

1. **Analyse the current situation**
   - Analyse the current position of the Bank (strategy, operating model, reporting)
   - Determine the potential for development of the economy and the financial services market

2. **Prepare alternative development models**
   - Prepare alternative development models, taking into account strengths and weaknesses, opportunities and threats, including:
     - position on the market
     - proposed products/services
     - desired financial results and necessary investments
     - KPIs and ratios

3. **Formulate a development strategy**
   - Elaborate on the selected model, breaking it down into:
     - target customer segments
     - products and pricing
     - sales channels
   - Identify competitive advantages and key success factors of long-term development
   - Create a road map for implementing the strategy

4. **Formulate financial model**
   - Prepare a detailed business case for the IT development strategy based on industry best practices
Advisory services for banks and other financial institutions

Optimisation of the organisational structure, creation of new functions, implementation of changes

**Project example: Re-engineering of the organisational structure of a major bank**

- Departments and positions were unified
- Headcount was brought into line with manageable limits
- Decision-making was made quicker
- Umbrella functions were created

<table>
<thead>
<tr>
<th>10</th>
<th>-15%</th>
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<tr>
<td>6</td>
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<thead>
<tr>
<th>Our team’s experience</th>
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<tbody>
<tr>
<td>• Developing banks’ target organisational structure</td>
<td>• Large local Holding</td>
</tr>
<tr>
<td>• Comprehensive re-engineering of the organisational structure of a universal bank</td>
<td>• Top 5 local Bank</td>
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<tr>
<td>• Developing an organisational model for a retail business block</td>
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<tr>
<td>• Centralising functions to improve the efficiency of work with problematic assets</td>
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<tr>
<td>• Developing a matrix management model for a branch network</td>
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</table>

**Approach and Results**

1. **Perform diagnostics and benchmarking**
   - Report on diagnostics of “as is” organisational structure and business processes
   - Series of “as is” process maps; description of problems discovered relating to the specific operations within a process
   - Internal and external benchmarking

2. **Select a solution**
   - List of recommendations to optimise structures of divisions and increase the efficiency of their operations, reduce the number of full-time employees/regroup employees
   - Description of advantages of implementing the proposed changes

3. **Design target organisational structure**
   - Target functional model and organisational structure
   - Series of “to be” business process maps
   - Rules for naming departments and positions
   - Manageability standards and approach to determining the optimum headcount
   - Change impact assessment matrix

4. **Plan for change implementation**
   - Plan for transition to the target organisational structure
   - Calculation of expected economic impact of changes
   - Assessment of expenses incurred on change implementation
   - Templates for project management tools
Identification of target headcount, workload distribution, productivity benchmarking

Project example: Headcount optimisation in corporate loan department

- Headcount planning model based on target scope of credit portfolio
- Account of complications affecting transactions in the portfolio
- Scalability for all branches, considering specifics
- Identified surplus headcount

17.5%

Our team’s experience

- Optimising the headcount of corporate loan department
- Optimising the headcount of accounting department and master data processing group
- Reorganising business processes and optimising back office headcount
- Planning labour resources and developing staff potential

Clients

- Large local Holding

Approach and Results

1. Identify key staff categories and perform benchmarking
   - Analysis of labour expenses structure
   - Identification of key (from a cost perspective) staff categories/positions
   - Collection of data on best practices for labour productivity for selected categories/positions at comparable organisations

2. Analyse processes and identify labour standards
   - Collection and study of data (documents, statistics etc.)
   - Interviews with process participants
   - Sample measurement of labour costs (average working day, time breakdown)
   - List of process operations, drivers, norms, corrective coefficients

3. Develop target model
   - Development of target model structure using MS Excel
   - Introduction of data into target model
   - Analysis of results, testing and fine-tuning
   - Description of assumptions and limitations of target model

4. Identify opportunities for process improvement
   - Summary and analysis of information gathered on processes
   - Documentation of possible areas for improvement (in the form of a register of opportunities and problems); assessment of potential for headcount optimisation
Design of KPI motivation system

Development of objective reward criteria, linking reward payments to the financial results of the organisation

### Project example: Development of a motivation system for branches of a retail block

<table>
<thead>
<tr>
<th>• KPIs for all positions at branches</th>
<th>• Increase in sale of key products*</th>
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<tbody>
<tr>
<td>• Motivation system for best branches</td>
<td></td>
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<tr>
<td>• Budget model for variable payroll</td>
<td></td>
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<tr>
<td>• Series of non-material motivational tools</td>
<td>10-15%</td>
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</tbody>
</table>

### Our team’s experience

- Developing a comprehensive motivation system based on key performance indicators (KPIs) for an international bank
- Developing a motivation system for branches of a retail block
- Implementing a KPI system for a bank on the basis of branch rankings
- Improving the HR management function at a multi-branch bank

### Clients

- Central Bank of the Republic of Azerbaijan
- Large local Holding

### Approach and Results

1. **Perform diagnostics of the existing motivation system**
   - Report on diagnostics (transparency assessment, relation to business results, fairness, level of formalisation)
   - Analysis of risks inherent in the current motivation system
   - Quality assessment of KPI system
   - Benchmarking of best market practices to design motivation system

2. **Develop principles for a new motivation system**
   - Basic system principles
   - Categories of rewarded positions and basic reward rates
   - Regularity of reward payments, including rules for delayed payment
   - Distribution of rewards depending on team and individual results
   - Rules for appraisal on fulfillment of individual goals

3. **Develop KPIs**
   - KPIs for departments and key managers (goals, indicators, calculation methods, weighting, data sources, employees responsible for calculation)
   - Goal fulfillment thresholds and scales for calculating rewards based on KPIs
   - Test calculation based on historic data

4. **Implement KPI system**
   - Reporting forms
   - Appraisal procedure and approval of rewards
   - Reward policy
   - Notification of staff and recommendations to management on the new rules
# Cost reduction

Regulation of requirements, optimisation of business processes, infrastructure and organisational structure

| Project example: Optimisation of procurement and supply system (top 20 bank) |
| • Simplification and standardisation of procurement and supply processes; implementation of efficient procurement control procedures |
| • Identification of expenses to be improved; development of action plan |
| • Reduction in annual non-operating costs |

| > 13% |

| Our team’s experience |
| Our team’s experience |
| • Optimising the procurement and supply system for a major bank |
| • Reducing strategic costs for a major insurance company in underwriting, loss settlement, organisational structure and IT |
| • Reorganising the finance department of a major investment company |
| • Developing a cost reduction methodology for a major CIS-based bank |
| • Optimising the IT procurement process |

| Clients |
| • Large local holding |
| • Top 20 local bank |

| Approach and results |
| 1 Perform diagnostics and compare with other banks |
| 2 Determine a framework for cost reduction programme |
| 3 Develop recommendations |
| 4 Implement new programme |

| • Analysis of corporate strategy and review of existing initiatives |
| • Assessment of current and potential operating models |
| • Description of current cost structure |
| • Benchmarking against competitors |
| • List of cost reduction opportunities with primary assessment of necessary resources and potential effects |
| • Description of cost reduction opportunities indicating timeframes and expected effects |
| • Plan of measures for involving process owners and interested parties |
| • Action plan for implementing the programme |
| • Description of approach to programme management and control over cost reduction |
| • Report on target operating structure |
| • Detailed functional analysis |
| • Programme implementation road map |
| • Business case for selected initiatives |
| • Templates for risk issue log, status reports on programme implementation and achievement of target values of cost reduction |
| • Regular status report on progress of programme implementation |
| • Risk issue log of programme |
| • Report on implemented initiatives |
| • Report on achieved level of cost reduction |
| • Panel of indicators for management on cost reduction levels |
Increase in business process efficiency

Acceleration of processes, reduction in number of mistakes, improvement of control mechanisms, implementation of process approach

Project example: Modelling, analysis and regulation of processes for the corporate investment block of a major bank

- Processes identified and documented
- Areas for improvement identified
- Change management mechanism developed for processes
- Number of problems identified in processes
- Number of formalised processes

> 150

> 50

Our team’s experience

- Performed modelling, analysis and regulation of business processes for the department of retail transactions on financial markets
- Increased process efficiency at a shared financial service centre
- Developed recommendations to improve the corporate lending process

Clients

- Top 5 local bank
- Top 3 local bank

Approach and results

1. Perform business process modelling and analysis
   - Process register (including classification and process guide)
   - Modelling agreement
   - Detailed process maps ("as is")
   - Register of problems identified with criticality assessment and description of causes and consequences

2. Develop action plan for improving processes
   - Register of improvement initiatives
   - Structured description of each initiative including timeframes, expected effects etc.
   - Initiative ranking matrix
   - Implementation road map

3. Develop detailed design of target processes
   - Detailed process maps ("to be")
   - Description of scope of changes, including new requirements for work environment, equipment, IT, human resources etc.
   - Documentation structure for processes and document templates
   - Regulations, operating procedures, work instructions and forms

4. Support the implementation of changes and the development of the process management approach
   - Documentation for managing the improvement programme (status reports, risk register, communication plan, reports on assessment of achieved effects)
   - Process management model (process owners, improvement teams etc.)
   - Change management procedure, requirements for documentation management and depositary, recommendations for the measurement of processes, including process
Establishment of a project office

Reduced project timeframes and budgets, decreased risk of loss of quality when implementing complex projects

<table>
<thead>
<tr>
<th>Project example: Outsourcing of the project management function of a large-scale optimisation programme at a major universal bank</th>
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</thead>
<tbody>
<tr>
<td>• Project planning, control and risk management procedures were implemented</td>
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<tr>
<td>• A transparent reporting system was developed</td>
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<tr>
<td>• Quality criteria were introduced for project results</td>
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<table>
<thead>
<tr>
<th>Our team’s experience</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Designed a turnkey project and programme management office</td>
<td></td>
</tr>
<tr>
<td>• Managed a series of projects to implement IT solutions at a retail block</td>
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<tr>
<td>• Managed a series of projects to automate corporate lending processes</td>
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<tr>
<td>• Performed an independent audit of project quality</td>
<td></td>
</tr>
<tr>
<td>• Developed various project procedures and held project management training sessions</td>
<td>• Top 20 local bank</td>
</tr>
</tbody>
</table>

| Approach and results |
|---|---|---|
| 1 Design project office | 2 Roll out project office | 3 Support portfolio, programme and project management |
| • Report on diagnostics of project management |
| • Methodology and procedures for project, programme and portfolio management, working templates |
| • Recommendations on the automation of project management processes and selection of software | • Project office roll-out plan |
| • Updated governance documentation |
| • Communication materials supporting the launch of the project office |
| • Training materials and reports on employee training | • Support of initiation processes for programmes and projects (preparation of project charters, business cases, support of committee work on projects, monitoring of portfolio and ranking of project initiatives) |
| | • Support of planning and control processes for project implementation (project management plans, reporting management, risk register and risk management plans etc.) | • Reports on results of project quality audits, development of project procedures, monitoring of project KPIs |
Preparation of functions and implementation of risk management frameworks, optimisation of existing processes, development of target model

**Project example: Preparation of bank for risk management attestation**

- Functions were established to manage the selected risks: assessment, monitoring, reporting etc.
- A register of key processes and their owners was created
- The responsibilities of process participants were determined
- Capital optimisation via increased reporting quality*‌

  * Assessment of potential according to Deloitte best practices

**Our team’s experience**

- Preparing the bank for attestation by the regulator in accordance with the risk management framework for the implementation of IRB methods
- Performed assessment of the bank’s project portfolio on the implementation of advanced risk management approaches and the establishment of an internal project management office
- Developed requirements for processes, systems and data as part of the risk management function
- Held training courses on the development of the risk management function

**Clients**

- Top 3 local bank

**Approach and results**

1. Define key processes
   - List of key business processes within separate risk categories
   - Description of “as is” and “to be” business processes
   - Assessment of business processes for compliance with regulatory requirements
   - Identification of key systems and information sources
   - List of applied models

2. Establish a transformation plan
   - Identification of key initiatives within risk transformation
   - Identification of task priorities and establishment of action
   - Identification of required development models and plans
   - Identification of key information owners
   - Establishment of a transformation programme management office

3. Implement plan
   - Changes to business processes according to regulatory and Basel III requirements
   - Measures to increase the quality of prepared reports
   - Monitoring of project implementation and control over results
   - Review of Bank’s preparation for an audit by a regulator
Why Deloitte?
Deloitte clients in the Azerbaijani FSI industry
Deloitte clients across the CIS region
Deloitte worldwide

Our global look

• Deloitte Touche Tohmatsu Limited has been active on the professional services market for 150 years

• In 2010, Deloitte ranked first by revenue among global professional services firms

• In 2013, for the second time in its history, Deloitte became the largest professional services organisation in the world

• Deloitte offers its clients a whole range of audit, enterprise risk management, consulting, financial advisory and tax & legal services

• Our member firms serve more than 80 per cent of the world’s largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global companies

• With approximately 200,000 professionals worldwide, we deliver services in more than 150 countries. Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate.
Deloitte in the region

Our global look

The professionals working in our offices come from all over the world, not just the CIS. Over 85 expats work at Deloitte CIS.

- Deloitte CIS has been active on the CIS market since 1989
- Approximately 3 000 employees work at Deloitte CIS, including over 300 specialists in consulting, who specialise in serving businesses in a wide range of industries, including finance, telecommunications, energy and mining, retail, and many others
- We have five offices in Russia (Moscow, Saint Petersburg, Yuzhno-Sakhalinsk, Ufa and Yekaterinburg), 12 offices in the CIS, and one in Tbilisi, Georgia
- Deloitte CIS has increased its service volume by more than 50% per year over the last five years, which demonstrates market recognition of the quality of our services
- The Azerbaijani practice of Deloitte was first launched in 2002. Since then the office has grown to serve more than 1000 companies from a variety of industries, including financial services, energy & resources, travel, hospitality, and leisure, medical, pharmaceutical, cosmetics, and many more
- With an overall headcount of over 100 people, Deloitte Azerbaijan has two local partners responsible for providing services in the country, and a number of certified ACCA and CISA members.
Why Deloitte?

Deloitte is one of the global leaders in providing consulting services to financial services companies

- We have a specialised team with experience in implementing projects for leading banks in Azerbaijan and across the CIS

- Deloitte works with the largest banks in the CIS. Our list of clients in Azerbaijan includes several major banks. We know the ins and outs of the banking sector and we have the ability to benchmark and study the experience of other market players

- We know the best practices for the financial sector and are able to apply unique methodologies and instruments when implementing a wide range of projects

- We have experience of providing consultancy on a number of management issues, from strategy development to increased process efficiency

- We have access to a deep industry knowledge base, which enables us to benchmark and receive information on the best practices in the global banking industry

- We involve international banking experts from Deloitte offices abroad in our projects.
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