A large pile of various keys, including silver, brass, and gold keys of different shapes and sizes. One prominent gold key is in the foreground, lying horizontally. The background is filled with many other keys, some with intricate designs and others that are simple and utilitarian. The lighting is bright, highlighting the metallic surfaces and the textures of the keys.

Deloitte.

Growth in Banking
– unlocking the full potential
Profitable growth as
the basis for long-term
competitive success

A Deloitte Consulting Switzerland White Paper
Audit. Tax. Consulting. Financial Advisory.

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Executive summary

Since the financial crisis in 2008 and the subsequent global economic recession, banks have **focused most of their attention on protecting their business** against negative external events, choosing to protect their share of the market until more favourable conditions return. They have tried to improve their financial position through a combination of cost control and revenue growth, but the result has been **volatility in profit margins**. Revenue growth has not necessarily resulted in higher profits.

Regulation has had an adverse effect on banking profits, through measures by regulators to **strengthen the capital and liquidity** of financial institutions, **improve the resilience** of financial markets, **extend consumer protection** and **increase tax transparency**.

This report suggests that market conditions are now improving, and that **opportunities for profit growth have returned**, and banks should be planning to develop their business through strategies for profit growth. **Increasing revenue is of no value unless it is accompanied by higher profit**.

In this report we consider three key questions. **How do banks create profitable growth that will add to their value?** Having achieved growth, **how do they sustain it?** And **how do they establish a growth-oriented culture?** In Deloitte's view there is a four-stage growth cycle that banks should adopt and maintain.

The first stage of this cycle is to **define an appropriate growth target** for the bank. The growth rate target for any individual bank depends on a combination on factors internal to the bank, which we call a sustainable growth rate (SGR), and external factors in the general economic environment and in the financial services industry. The potential growth rate will depend on whether these internal and external factors are favourable or not.

The second stage of the profit growth cycle is to **identify potential areas for growth**. This means identifying investment projects that will enable the bank to achieve its selected growth target. Deloitte has developed a **growth generation map**, based on our experience with banking clients. Growth will come from a combination of projects in three areas: **developing the core business** of the bank, **investing in adjacent business** areas, and moving into completely **new product-market areas**. Individual investment projects in each of these three areas should be assessed, and we have identified several perspectives for growth that will enable banks to evaluate individual investment options.

The assessment of individual projects is improved by a careful and thorough analysis of the available data, using **advanced analytics** combined with techniques for performance management measurement, business intelligence and data management. Advanced analytics can, in fact, be used effectively in all four stages of the profit growth cycle.

In identifying potential areas for growth, we have given particular attention to the opportunities provided by **innovation and advances in digital technology**. Our view is that there are several forces for 'digital disruption' which create significant opportunities that relate to banks' customers and markets, and also to banking employees and banks themselves.

The third stage of the profit growth cycle is **constructing an optimal portfolio of investments**. Individual projects are assessed in terms of both expected return and risk, and the choice of projects for the investment portfolio will depend on the bank's target growth rate and also its risk appetite. The optimal portfolio will consist of investments that provide a suitable balance, providing the bank with its target rate of profit growth within limits acceptable to its risk appetite. The final portfolio will be a combination of investments in the bank's core business, in adjacent business areas and in new product-market areas.

The fourth stage of the profit growth cycle is to **execute the chosen growth strategy successfully** by investing in the selected project portfolio. Successful strategy execution requires four building blocks: **governance, organisation structure**, motivation through **incentives and rewards**, and a suitable **information system**. Deloitte has identified the necessary elements of a governance model and an Organisational Value Generation (OVG) framework for shaping organisation structure. We also recommend the application of a performance pyramid for incentives and rewards for profit growth, and elements of management reporting that will sustain growth.

We believe that this paper will help bank executives to address today's growth challenge and find solutions to the challenge of how their bank can be **positioned to keep up with the ever-increasing pace of innovative change**. For banks that are considering whether they should pursue a growth strategy and how to do it, or for banks that may already have taken the first steps towards realising a growth strategy, this report can serve as a solid basis for their ambitions.

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1. The profitable growth challenge

Most companies pursue an objective of sustainable growth. But what does this mean? Growth is sustainable when it results not only in increased revenues, but also in more profit. Profitable growth is the basis for long-term competitive success and is the most important element in enterprise value creation. Analysis by Deloitte concludes that profitable growth in banking should be pursued by competing on value rather than price, with the focus on revenue enhancement rather than purely on cost reduction.¹

Since 2008 banks, securities firms and investment managers around the world have sought to protect their businesses from the shockwaves of economic crisis. Many put **growth and expansion plans on hold** during this time, choosing to **conserve their share of the market** until more favourable business conditions emerged. However, as the graphs in Figure 1 below illustrate, their **mind-set has shifted** since 2011: the revenues of large European banks have increased, although still **below the pre-crisis level**, and the **revenues of Swiss banks have exceeded their pre-crisis level** while profit margins have been volatile.

Figure 1. European and Swiss banks: revenue and profit margins 2008-2014²



Following the economic crisis, banks scaled down the size of their organisations, both to improve efficiency and to comply with regulatory requirements. By divesting non-core activities and restructuring their business models, banks have begun to reposition themselves for growth and to look for new revenue opportunities. About three-quarter of the banks listed on the Swiss stock exchange put strong emphasis on growth and have mentioned it as a strategic priority in their annual reports.³ As Figure 1 shows, however, in the pursuit of revenue growth, profitability has fallen by the wayside. While the profitability of Swiss banks has been flat with a slight downwards trend since 2012, profit margins for European banks have fallen more substantially. This indicates that the real challenge in the current banking environment is to achieve profitable growth. In view of the banking industry heading towards a more regulated environment, this is becoming an even more important necessity (see Focus Box: Regulation as limiting factor for growth?).

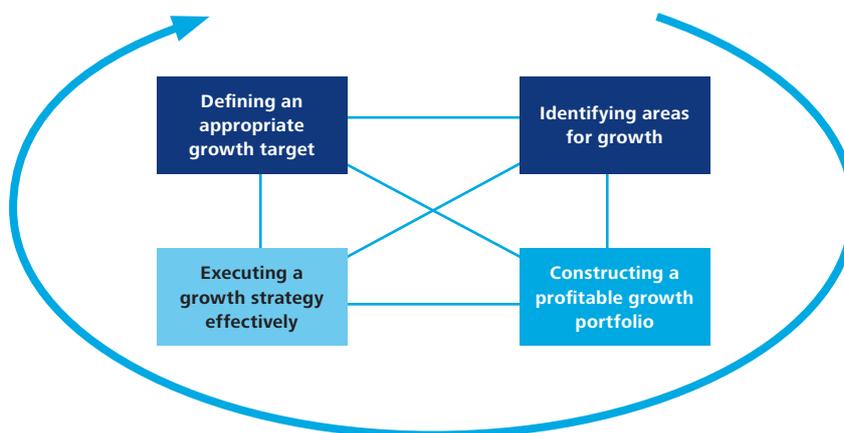
Against this backdrop the following questions emerge:

- How do banks achieve value-enhancing growth?
- How do they sustain it?
- How do they establish a growth-oriented culture?

Deloitte understands the issues facing banks as they grow and can help them meet and exceed their objectives. We have undertaken extensive research to identify the secrets of successful growth companies in banking. Our **Growth Cycle** was developed as a strategic framework for sustaining value-enhancing growth (see Figure 2). This identifies four interconnected elements as the key to growth:

- (1) Defining an appropriate growth target
- (2) Identifying areas for growth
- (3) Constructing a profitable growth portfolio
- (4) Executing a growth strategy effectively

Figure 2. The Growth Cycle



The following chapters of this report will expand on each of these elements.

While growth strategies are usually considered a means to overhaul competitors, they may also be seen as a defence mechanism. Attack is the best form of defence, and growth strategies may help banks to remain competitive in a fast-moving and rapidly-changing financial services landscape.

There are barriers to the development of successful growth strategies. Some are internal to the bank as political power plays may act against proposed strategic initiatives. Other challenges are external, such as ultra-low or even negative interest rates, and changing client demands in an increasingly competitive landscape driven largely by new market entrants (the so-called FinTech disruptors). Furthermore, the flood of regulatory initiatives in recent years has created an additional strain for banks. The Focus Box below shows how these may impact the growth ambition of banks.⁴

Focus Box: Regulation as limiting factor for growth?

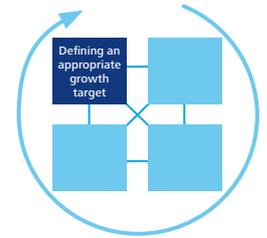
Regulation has been the main agent for change in the banking sector in the years following the financial crisis. Therefore it comes as no surprise, that – according to a Deloitte survey⁶ – compliance with new regulations is the biggest concern of the industry. Not only is more equity tied up, but regulation is also driving the operational cost base as well as limiting market potential. The impact of regulatory initiatives can be grouped into four categories, as shown below.

Regulatory cluster	Description	Impact
<p>1</p> <p>Strengthen financial institutions</p>	To enhance the prudential regulation of banks. Includes the Basel III regulatory capital and liquidity requirements	<ul style="list-style-type: none"> • Ties up more capital • Higher financing costs for some businesses • More resources needed for regulatory reporting • Reduction in counterparty risks
<p>2</p> <p>Enhance market resilience</p>	Regulation to enhance the resilience of the market infrastructure to promote financial stability, particularly in the area of OTC products	<ul style="list-style-type: none"> • Higher operational cost base • Extended operational risk management requirements • More resources needed for regulatory reporting • Reduction in counterparty risks
<p>3</p> <p>Extend consumer protection</p>	Introduction of tests of investment suitability and appropriateness, to improve consumer protection. Also enhanced transparency requirements (for example, MiFID II)	<ul style="list-style-type: none"> • Higher cost of providing investment advice • Lower demand for high-margin complex products • Regaining trust, especially among private clients • Compliance with regulations as a pre-condition for market access
<p>4</p> <p>Increase tax transparency</p>	Tax conformity requirements as an extension of current anti-money laundering regulations. Banks to apply additional compliance processes, especially for cross-border business	<ul style="list-style-type: none"> • Reduction in cross-border opportunities • Lower profitability in some offshore markets • More resources needed for regulatory reporting • Increasing demand for tax-related services

Regulation however has not only been altogether detrimental to growth. As a consequence of ad-hoc regulation by central banks in the form of relaxed collateral requirements, facilitation of unlimited credit lines and open market interventions to purchase bonds or currencies, there is considerable liquidity and an ultra-low interest rate environment boosting asset prices. In addition although global regulatory standards add to the cost base, they will in the longer term contribute to strengthening the capital structure of banks and the banking system as a whole. The outcome is reduced counterparty risks. Furthermore introducing consumer protection standards similar to EU regulations will be one of the pre-conditions for access to the EU market area.

It therefore comes as no surprise that many banking executives see regulation – or at least certain regulatory initiatives – as an impetus for the achievement of growth instead of as a limiting factor for growth. This highlights the importance for a financial institution of defining a strategy for responding to current and future regulatory developments. The response has to be two-directional: complying with regulation in the most effective way and being able to seize the opportunities resulting from it. This will enable organisations to leverage regulatory initiatives to their advantage.

2. Defining an appropriate growth target



Careful planning is required before launching a cost-intensive growth initiative. This must include defining an **appropriate growth target**, which will drive the choice of suitable strategies. In addition, growth targets must take account of the resources available within the firm to support growth. The goals must be reasonable, attainable and, above all, sustainable.

Strategic questions to define the appropriate growth target

When formulating growth objectives, questions that arise include:

- How can we **strengthen** our **competitive position** in our core business?
- Are there any opportunities currently available that we do not exploit in the **optimal way**?
- Are there any **new businesses** we could engage in successfully?
- Is there any **potential for synergy** within our organisation?
- What **growth rate is needed** for achieving a target market share?
- How many growth **opportunities** are available and how should they be **financed**?
- Which **lines** of business should be **targeted**?

Two complementary perspectives can be used to determine an appropriate growth target.

- First, an **internal perspective** will help the firm to determine a sustainable growth rate that is consistent with its available resources and financing capabilities, as well as its overall strategy.
- Second, an **external perspective** will be used to compare this sustainable growth rate with the growth prospects for the industry and the economy as a whole and to assess the competitive situation of the firm.

Internal perspective: competitive situation and internal financial resources

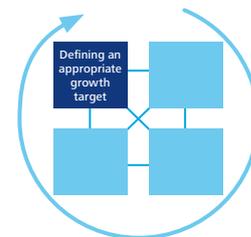
The target growth rate is limited by the amount of resources available to the firm for financing growth. When a bank is in a **superior competitive situation** in terms of products, profitability or access to financial markets, it can try to capitalise on its advantage to grow market share, either organically or through mergers and acquisitions. Conversely, a firm in an unfavourable competitive position will need to think of measures for defending its market share, and it may be forced to invest more heavily in growth in order not to lose ground.

The most appropriate tool for deriving a growth target based on **internal financial resources** is the sustainable growth rate concept (SGR). This calculates sustainable growth as the interplay of four accounting ratios: retention ratio, profit margin, asset turnover and capital structure. The SGR formula is as follows:

$$SGR = \underbrace{\left(\frac{RE}{NPAT} \right)}_{\text{Retention ratio}} * \underbrace{\left(\frac{NPAT}{I} \right)}_{\text{Profit margin}} * \underbrace{\left(\frac{I}{A} \right)}_{\text{Asset turnover}} * \underbrace{\left(\frac{A}{E} \right)}_{\text{Financial leverage}}$$

Where:

RE = Retained earnings I = Income E = Book value of equity
 NPAT = Net profit after tax A = Assets (on balance-sheet)



The SGR describes optimal growth from a purely financial perspective. It is the maximum annual percentage growth that can be financed with internal resources under current planning assumptions. Two components in the formula are of a **strategic/operational nature** – the firm’s asset turnover (I/A) and its profit margin (NPAT/I) – while two others are of a **financial nature** – the degree of financial leverage used (A/E) and the amount of retained earnings (RE/NPAT).

In practice, the **process** to determine the SGR is **iterative**, since financial plans can be modified in order to set a different growth target. However because profit margin and asset turnover are of a strategic/operational nature and are closely linked to the internal situation of the firm, they cannot be changed in the short term. As a consequence, a profitable firm is able to sustain a higher growth rate than a less successful rival. Only the financial ratios can be changed in the short term by management discretion. Financial leverage can be increased by adapting the proportion of debt to equity, either through new debt or by buying back shares; and the dividend pay-out ratio can be reduced to make more funds available to finance growth.

Management however cannot decide on the financial policy to follow without the approval of external creditors and/or shareholders. In order to win their support for a financial policy, management will require a compelling business case that recognises both the firm’s internal competitive situation and also external factors.

External perspective: market opportunities and competitive situation

When looking at the external situation of the firm there are two main issues to consider.

1. **Economic outlook.** Shareholders will continually assess the growth prospects and profitability of the firm against other investment opportunities in the broader economy, and they may demand a higher dividend pay-out ratio if they are not satisfied with the prospects for growth and profitability that the bank offers.
2. **Industry outlook.** A firm with growth below the industry average loses market share. This will normally damage profitability over time and reduce growth prospects further. Conversely, a firm that grows faster than the industry average improves its competitive position, which potentially can lead to further growth and bigger profits.

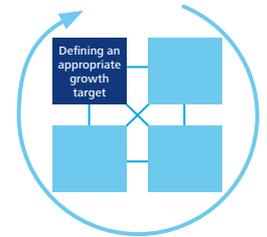
When deciding a growth target management therefore needs to make a **trade-off** between **market opportunities**, the firm’s **competitive situation** and the **internal financial resources** available for growing the business. When internal financial resources are insufficient for achieving the desired growth rate, management will need to persuade shareholders and/or creditors to finance the growth. In contrast, when financial resources exceed the amount needed for investment opportunities, some debt may be repaid or profit may be distributed in order to maximise shareholder value.

Combining the two perspectives: the four quadrants of growth

Four possible generic growth strategies can be identified by combining the internal and external perspectives. These are shown in Figure 3. To identify the growth quadrant where the company **is currently located** (rather than the quadrant where management **would like it to be**) requires the exercise of critical introspection (where is the firm winning and losing? what are its internal capabilities and resources? etc.) and a realistic assessment of the industry prospects.

Each of the four quadrants is characterised as follows.

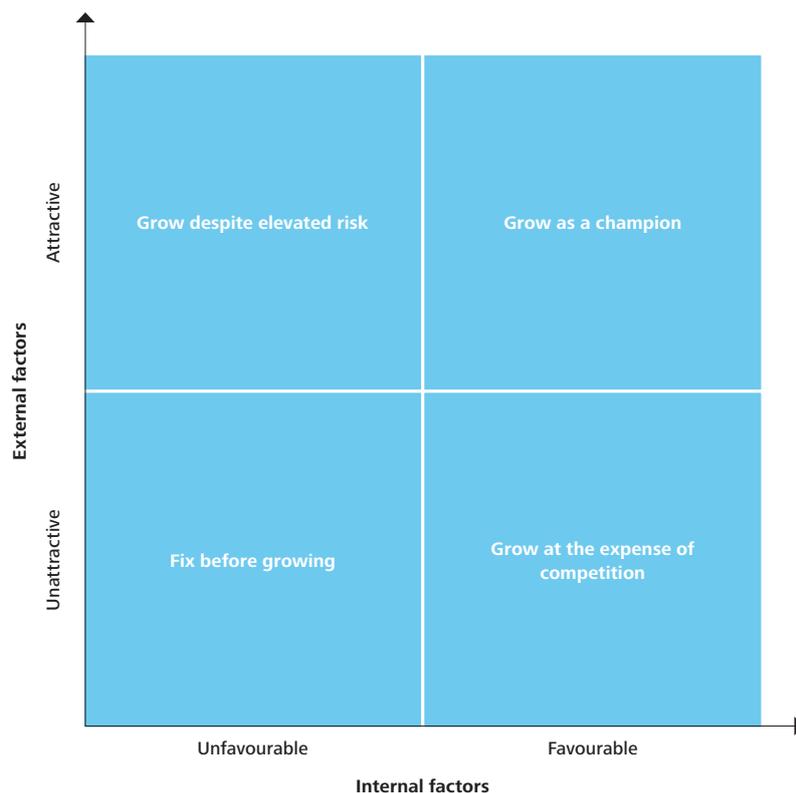
- **Fix before growing.** The firm has problems that are in need of an urgent fix, and the industry prospects are dim. The opportunity costs of not growing are low and the firm has some time to focus on restoring profitability. However, standing still for long is not an option, as a wave of consolidation may hit the industry.
- **Grow despite elevated risk.** The firm is not in a good condition, but it cannot afford to lose market share to rivals in a growing market. Internal improvements are needed at the same time that the company is expanding. This requires skilful management and trust from shareholders (who may decide that disposing of their investment is a better alternative). Companies should aim for growth only in those markets where opportunities for profitable growth are the greatest.



- **Grow as a champion.** The firm is in good shape and well positioned to benefit from high growth prospects in the market. It should therefore aim for a superior rate of growth. The challenge is to grow whilst maintaining its internal strengths (people, organisation, financial resources) and to avoid 'growing pains'.
- **Grow at the expense of competition.** The outlook for the industry is not good, but the company is well positioned and can benefit from a consolidating market. It can gain market share either through organic growth (for example by conducting aggressive sale campaigns) or through acquisitions of competitors. Both strategies are not without execution risks.

After identifying the 'right' quadrant where it is located, the firm has to review its SGR and decide how much external financing will be needed in order to achieve the desired growth rate. Shareholders will then assess the case for growth and decide whether it is sufficiently credible to finance it.

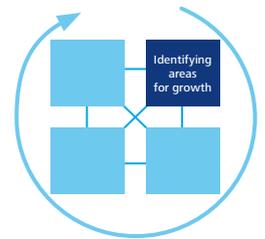
Figure 3. Generic growth strategies



From target to reality

This chapter has shown **how to define a growth target** by assessing the firm's internal capabilities and the market prospects. However, it is important not to be **deceived** by the formula in the SGR concept, and to realise that a growth target does not transform itself into growth automatically. Expanding in the wrong market segments or bringing unwanted products to the market can have a cost in terms of both money and growth. The following chapter will consider how growth can be identified and generated.

3. Identifying areas for growth

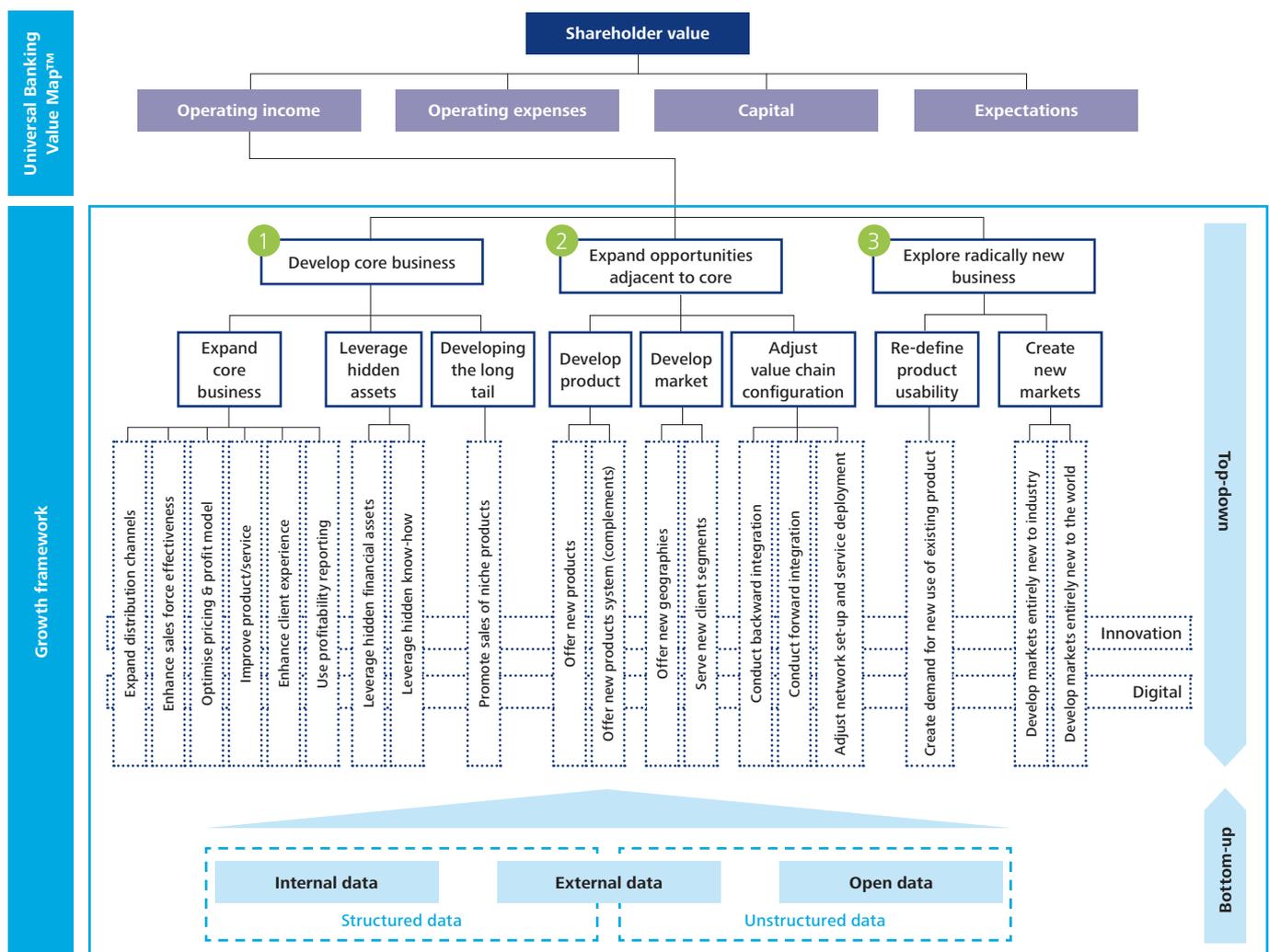


The next task is to identify suitable sources for real growth that are consistent with the bank’s generic growth strategy, organisation, competitive position and culture. Growth generation maps can help with identifying them. Deloitte’s growth generation map based on our Universal Banking Value Map™ provides a starting point for identifying growth opportunities. The map provides a breakdown of the key areas for growth and helps bank executives to initiate meaningful discussions about growth options available for their business.

3.1 The Deloitte map for growth generation

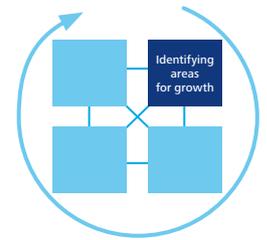
Deloitte’s growth map is in the form of a logical tree structure with three levels (see Figure 4). The first level consists of the available **growth types** in relation to the existing business. The second level shows, for each growth type, the possible **growth strategies**; and the third level identifies various **growth levers** (see Appendix I for details). The ultimate objective is to identify areas for growth that could increase operating income and contribute to the agreed growth target.

Figure 4. The Deloitte map for growth generation



■ Value drivers □ Growth type (1st level) □ Growth strategy (2nd level) ∴ Growth lever (3rd level)

Internal data: MI reporting, client data, performance data
External data: external sourced data, e.g. market information, competitor information
Open data: general available information, e.g. news, trends



While it is easy to say that growth is important, it is not so easy to apply growth targets to decisions that are made at a strategic level: where to spend time and resources, how to best execute strategic initiatives, and ultimately how to win in the competitive marketplace. Our growth generation map is designed to quicker connect the levers at the bottom of the tree (strategic actions) with shareholder value at the top of the Universal Banking Value Map™. Two simple ways to use it are as follows.

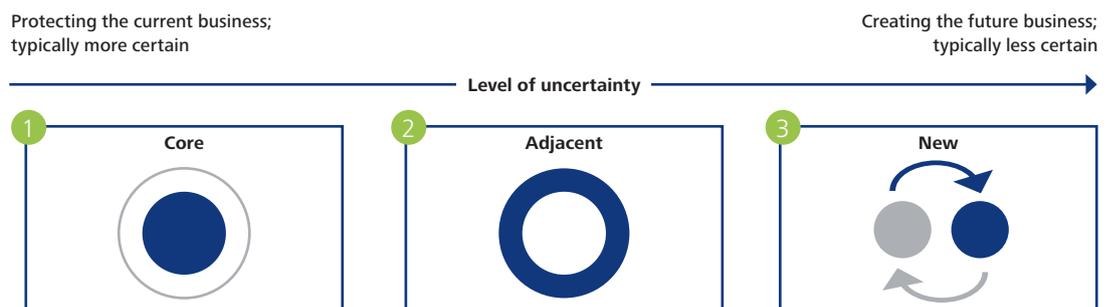
- Start at the top. Based on the growth type you want to pursue, work your way down and ask yourself at each level “How will we use this to generate growth?”. This will help to ensure that your growth strategy and the underlying levers for growth support your overall growth objectives.
- Start at the bottom. Based on the data analysed, work your way up and ask yourself at each level “Where is the opportunity?”. This will help to ensure that existing data is fully utilised to support overall growth objectives.

3.2 Growth types

Deciding to grow a business is the beginning, not the end, of a **complex strategic planning process**. One of the most important decisions that executives need to make is **where** to look for growth: in areas related to current business operations, potentially offering quick returns, or in areas that represent a departure from the current core business, which likely require greater resource input. This decision can determine not only what your business does next, but also what it becomes in future. Should you select growth opportunities close to the core business, or further afield?

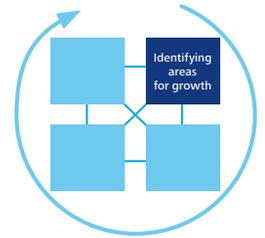
In Deloitte’s experience, companies need to adopt a portfolio approach to growth (see Chapter 4). This means that they must enhance and protect their existing business, while also creating opportunities for emerging businesses in order to sustain growth over time. There are three areas for growth: developing core business, expanding opportunities adjacent to the core and exploiting radically new business.⁵

Figure 5. Types of growth



- **Core:** Maximise profitable growth from existing products, customers, channels and geographical markets.
- **Adjacent:** Utilise existing assets and capabilities to extend the boundaries of the existing business.
- **New:** Develop new assets and capabilities to create new markets; shift the basis of competition or address new or unmet customer needs.

Deloitte’s research and project experience shows that banks typically focus on developing the core business and give less attention to developing new products in new markets. In order to develop growth options in the core and adjacent business areas more effectively, a granular data-driven (bottom-up) approach is appropriate. Advanced analytics is a technique that can help banks with this (see Focus Box below).^{6,7}



Focus Box: Insight-led growth using advanced analytics

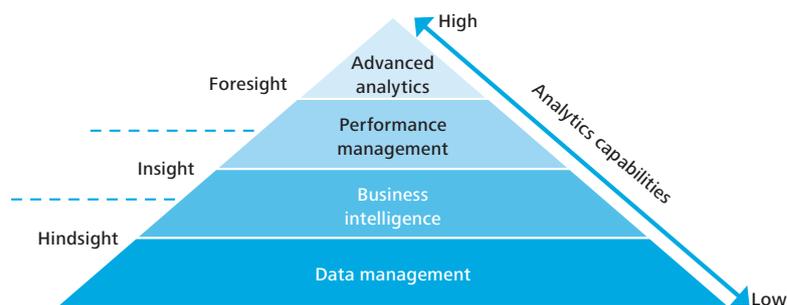
An increasing number of financial institutions are gaining a competitive advantage by using information to improve how they serve clients. **Advanced analytics**, in combination with **Performance management**, **Business intelligence** and **Data management** techniques, can be used to predict future outcomes more effectively.

Advanced analytics is the application of data mining, pattern matching, data visualisation and predictive modelling tools to produce analysis and algorithms that enable businesses to make better decisions. Advanced analytics answers the questions: Why is this happening? What if trends continue? What will happen next? What is the best outcome?

Performance management is an umbrella term to describe the metrics, processes and analytical methods that are used to monitor and manage business performance and risk.

Business intelligence consists of querying, reporting, online analytical processing and 'alerts' that can answer questions such as: What happened? How many? How often? Where exactly is the problem? What actions are needed?

Data management is the development and execution of architectures, policies, practices and procedures to manage the collection, quality, standardisation, integration and aggregation of data across the business.



Advanced analytics can be used as a source of insights throughout the growth cycle (see Figure 2). During the definition of an **appropriate growth target**, it can be used to leverage data from internal and external sources, to assist with the formulation of growth objectives (such as catching up with the market or realising synergy potential). Advanced analytics can also be applied to **identify opportunities**. The vast amount of client data available in-house can be used for the identification of sources for growth. Growth opportunities are then combined into a **portfolio of growth initiatives** (see Chapter 4). Finally, advanced analytics supports the **execution process** (see Chapter 5) by adding value to the information used in management reporting, via the leverage of defined KPIs.

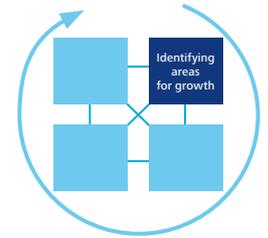
As a result, advanced analytics provides benefits for the customer as well as enabling the business to reach its growth targets.

Business benefits:

- Increase in revenue through customer targeting, and ability to cross-sell and up-sell.
- Reductions in cost of sales and customer service costs.
- Improvement in customer loyalty, transparency and marketing effectiveness.
- Improvements in R&D capabilities, data sharing, connectivity within organisation and innovation.

Customer benefits:

- Improved customer service and experience.
- Improved access to relevant information and services.
- Personalised services.
- Move to a 'pull' relationship with increased focus on true client demand.

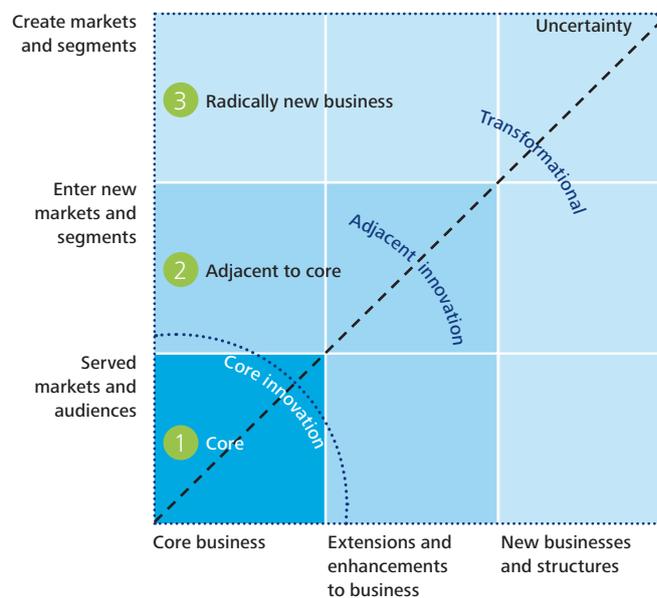


In the following two chapters, we will briefly discuss how two of the most critical growth levers, ‘**innovation**’ and ‘**digital**’ can foster growth.

3.3 Innovation as an integrated part of the growth agenda

Growth and innovation are strongly connected issues. Many levers for growth are dependent on innovation in products and services, product systems and markets, which lead directly to enhanced capabilities for generating operating income or *growth*. While strategies for growing the core business (1) may be implemented by **core innovation** to the business, expansion in areas adjacent to the core (2) and new businesses (3) require more far-reaching adjacent or transformational innovation (see figure below).⁸

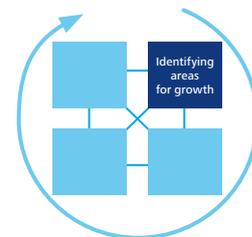
Figure 6. Growth and innovation types



① – ③ Growth type
Core, adjacent, transformational = Innovation type

Innovation is commonly seen as the development of a capability, which **breaks away from established ways of doing business**.⁹ It may occur in the form of small adjustments and **core innovation**, or as bigger changes in the form of **adjacent** or **transformational innovation**. Core innovation is equivalent to **limited change to the known**. It drives growth of the core business and is necessary to **keep up with competitors**. Adjacent innovation is needed when growth is sought through leveraging **current assets** and **capabilities**, or when the dynamics in current markets must be changed. It comes into play when **existing capabilities** are extended to **new markets** or when offering new services or products to **existing customers**. Transformational innovation is required for major changes aimed at shifting customer expectations and competitor actions, to create **new markets** or **unique propositions** that lead to significant competitive advantage.

Pursuing more radical innovation translates into entering new markets, and offering new products, services or product structures, to an audience which was previously considered ‘**unbankable**’. Pre-paid credit cards, micro finance and online brokerage are good examples of this. However, aiming at transformational innovation may require a trial-and-error approach as well as significant organisational commitment. Transformational changes are comparatively rare and hard to achieve successfully. To create a baseline for innovation, a **mix** of core, adjacent and transformational innovation is necessary. Irrespective of the composition of this mix, it must be compatible with the organisation’s ambitions as set out in its **corporate strategy**, and with its **culture** and ability to embrace the proposed innovations.¹⁰

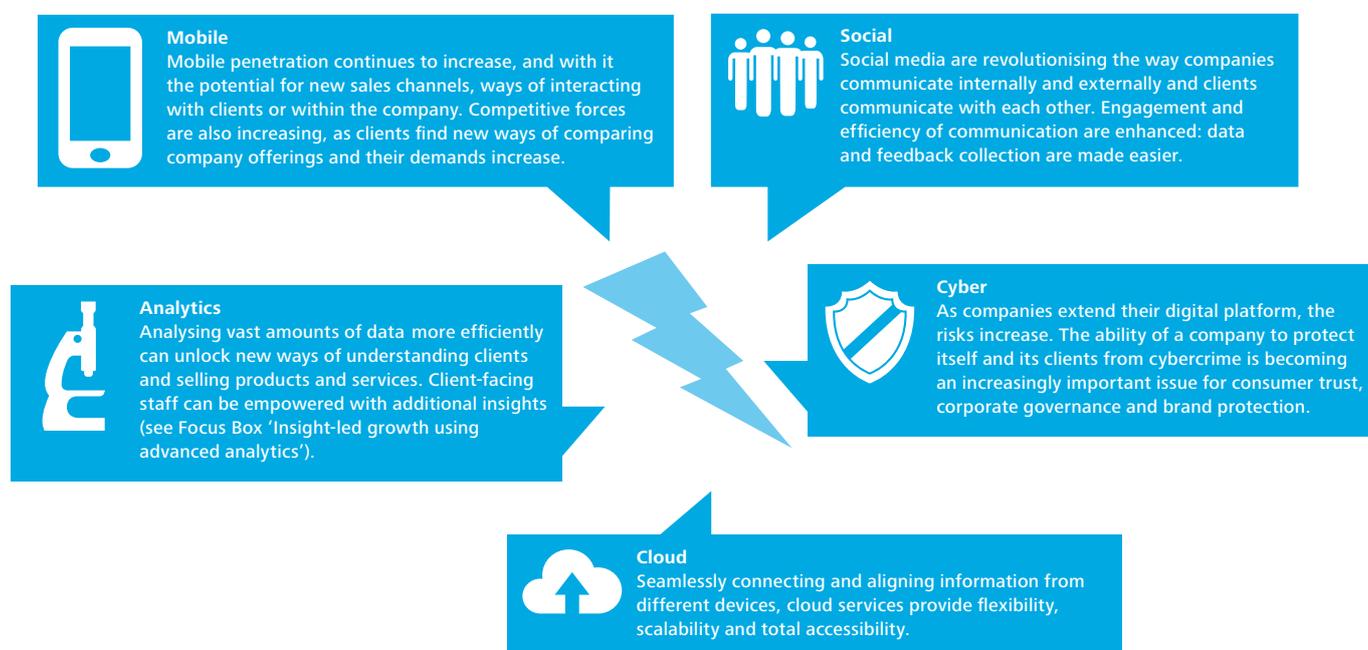


3.4 Growth by leveraging the digital platform

The pace of digital change is increasing. It creates both challenges and opportunities for companies in all business sectors. Digital innovation has transformed the way that information is accessed, analysed and utilised and the way that products and services are delivered to consumers. It is one of the key drivers of a new competitive landscape.

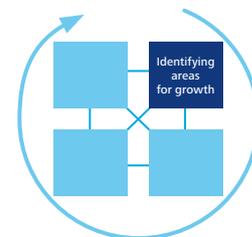
Deloitte's five forces of digital disruption provide a framework for understanding the digital revolution and the ways it is impacting customer-facing companies, including banks.¹¹ The figure below provides an overview on the key digital disruptors:

Figure 7. Deloitte's five forces of digital disruption



Banking clients are increasingly making use of new digital offerings and are expecting the same high quality service delivery they have become accustomed to from leading digital consumer businesses. Companies are making increasing use of these five forces to disrupt the competitive environment. Banks can re-shape their competitive advantage, while new players can disrupt the banking industry by entering from outside. Old business models are changed, and new business models and product offerings arise, such as crowd financing. Banks need to respond through innovation and to embrace digital technology, just as their clients have done. There are **three dimensions** to consider: (1) **clients**, (2) **employees**, and (3) **banking institutions**.

Banks need to reshape channels and products to serve, retain and excite (1) **clients** who are increasingly (inter-) connected, informed, socially engaged, demanding and time-poor. There is a need to digitise core banking services such as *payments or FX transactions*, both of which have seen entry into the market from all-digital non-banking providers. Digital offers new ways to connect with clients, creating state-of-the-art, engaging and informative contact points, including mobile. Other digital services to connect (with) clients include *account aggregation* and *client/advisor matching*. By facilitating clients interconnecting in social media banks stay part of the picture, retain clients and learn more about client needs through advanced data analysis. Analytics can help to increase the quality and relevance of *automated investment advice*, both for *financial planning* and *portfolio allocation*, thus personalising investment advice in a cost-efficient way. Digital platforms can also offer more clients access to *alternative investment products* that would be restricted to wealthier client segments in a more traditional set-up.¹²



In addition to empowering clients, banks need to empower their own (2) **employees**, providing them with more effective tools to understand and serve their clients better, interconnect among themselves and connect with clients. This will enable them to do more with less and provide a more personalised service to clients without driving up costs. At the same time enhancing the digital workplace will increase employee motivation and commitment and so help to retain talent within the bank.

To facilitate these developments, (3) **banks** will need to restructure the ways they utilise digital platforms, their IT systems, business practices and operating models, in order to seize opportunities for growth. Digital platforms must be leveraged across the bank according to a coordinated digital strategy. Analytics is the key enabler of this process, increasing a bank's ability to capture, analyse and visualise client data as well as supplier and operational data. New operating models arise, with possibilities for outsourcing parts of the digital value chain to **specialist third party providers**.

Digital innovation creates opportunities in all parts of the growth agenda: in core, adjacent and transformational innovation (see Focus Box "Examples of digital innovation"). Going digital also allows providers to cut costs, offering a better product at lower prices, thereby increasing competitiveness.

Focus Box: Examples of digital innovation

Core innovations

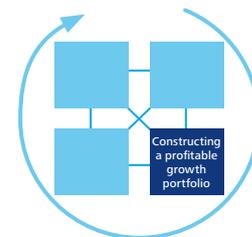
Growth levers that focus on delivery and client interaction are the most well-established digital offerings in financial services. **Digital channels** can be divided into **web**, **mobile** and **wearable** and may be used to deliver **documents** as well as actual **services**. Current initiatives include dynamic and user-configurable client reporting, extensions to online sales (such as mortgages and payments), online-only banking and interactive tool-assisted advisory services. Also being explored is the implementation of **augmented reality**, such as guiding a user to the nearest ATM or calculating foreign currency prices. These **context-aware** applications provide an opportunity to align user behaviour/location with services and products offered by the financial institution: they are one step closer to **ubiquitous services**. In general these innovations focus on **instant availability** and **dynamic content** presentation.

Other examples include mobile merchant services and direct primary issuance of equity in investment banking. With core innovations, banks are serving **existing clients** with **existing products** in an **improved/different way**.

Adjacent/transformational innovations

Examples of innovation to achieve **market expansion** may be found in private banking, in efforts to define new market segments based on client behaviour and socio-demographics instead of wealth and origin of wealth. **New markets** outside the core may be approached by regional retail banks through online portals that standardised products such as loans and mortgages automatically and without client-advisor interaction. Another example is crowd funding, where a project or venture is financed by a large number of people, usually over the internet: this offers an alternative funding method to more traditional bank loans, debt finance or equity issuance.

4. Constructing a profitable growth portfolio



After a firm has identified a realistic growth target based on an assessment of internal capabilities and external conditions, and selected a range of opportunities across the different growth levers, the next step in the growth cycle is to **construct a portfolio of growth initiatives**. The optimal portfolio will be a function of the number and attractiveness of the individual projects available, and the overall strategic fit that different combinations of projects will have due to diversification and scale economies.

4.1 Individual project assessment

Before assessing the entire project portfolio for its potential to generate profit, opportunities are bundled into project (candidate) charters. Each opportunity or project must then be assessed individually against certain risk metrics. Accordingly, each bank should define a **minimum risk/growth threshold** that any project needs to meet in order to be considered as a candidate for the portfolio. Projects that do not have the potential to provide a sufficient amount of growth for their underlying level of risk will be rejected.

In addition to financial metrics such as NPV, IRR and ROI, high-level qualitative characteristics are used to identify **key risk metrics** of the project, allowing the definition of near-term risk mitigation strategies. Typically, these metrics relate to execution risk (strategic attractiveness, market knowledge etc.), market risk (competition, customers, commercial attractiveness etc.) and technology risk (development status, sustainable advantage etc). Each project undergoes a **standard project risk assessment** which provides a consistent and transparent framework for comparison. Managers are asked to assess the project risk (typically using a short questionnaire) along defined dimensions, after which a risk rating is determined for each metric and then for the entire project. In this way, the risk profile of projects can be compared in order to determine which to elect for the portfolio.

4.2 Portfolio assessment

When the individual project assessments for risk and return have been completed, the firm should move on to an **integrated portfolio view**. Projects will be measured along pre-defined dimensions in a **growth portfolio map** to identify an optimal combination based on the bank's growth target and risk appetite. The **Deloitte growth portfolio methodology**, shown in Figure 8, presents a simplified two-dimensional assessment of projects according to risk and growth potential, giving an easy-to-understand graphical presentation of results. Measuring projects according to risk and growth potential in this way has the advantage of incorporating target growth into the portfolio mapping exercise. This can then be combined with an assessment of risk and return, on the assumption that growth needs to be profitable and returns will tend to normalise over the long run.

Finally, the bank should combine its overall **risk appetite** with its **target growth rate** to define the acceptable growth/risk region for the combined portfolio. This region is shown as attractive initiatives in Figure 8. However, this does not imply that opportunities which lie outside this region but above the growth/risk threshold should be rejected, as this might result in the selection of a sub-optimal portfolio. An **optimal portfolio** builds on the benefits provided by **risk diversification** and **scale and scope economies** in order to achieve a risk/growth combination that is superior to any individual project. This is achieved by allocating **resources** (capital, people, management time) to a varying degree to the projects in the selected portfolio. For example, the decision may be to maintain an adequate level of investments in the core business to provide large scale economies and low risk cash flow generation, to allocate a larger amount of resources to promising adjacent opportunities, and to take controlled risks in new markets or products that can be future drivers of growth for the bank.

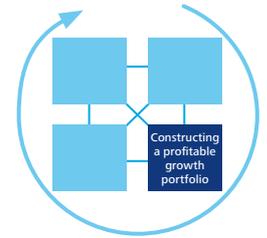
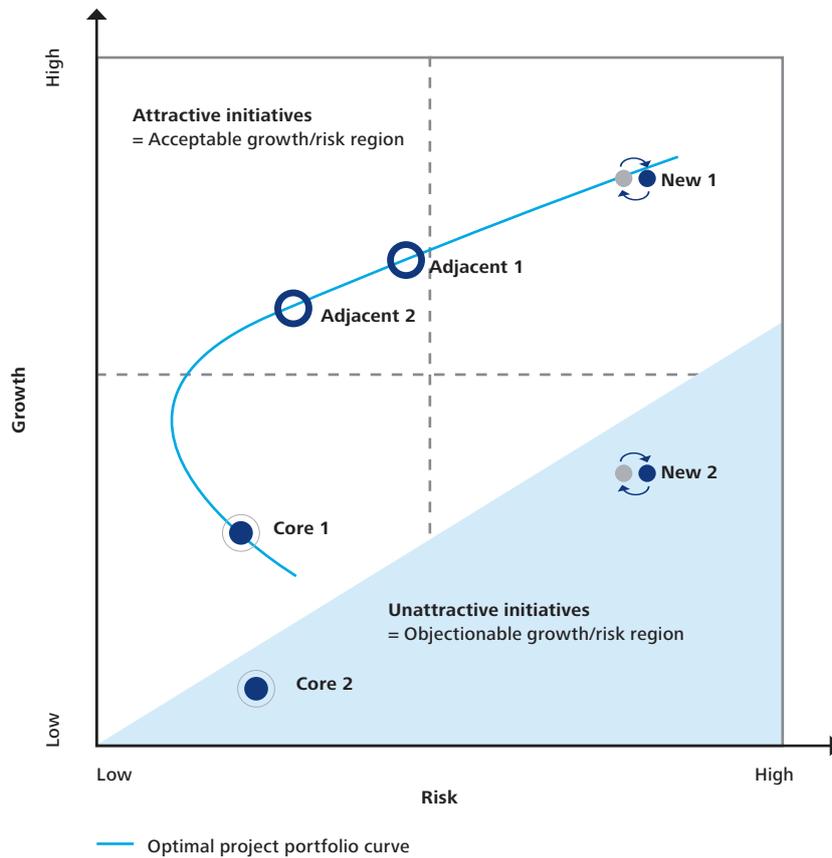
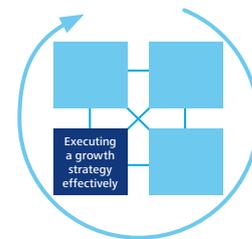


Figure 8. Deloitte growth portfolio methodology¹³



A varying amount of sophistication may be used in the optimisation process. When the **number of projects** is small, the **degree of uncertainty** is small, and the investments required for the projects are relatively **discrete** (for example, minimum required investment, or ‘all or nothing’ opportunity), the process can be relatively straightforward: the optimal portfolio can be derived by assessing a small number of investment/project combinations. However, when there are many different investment opportunities, there is considerable uncertainty, and there are different possible **levels of investment** for each project. In this case finding an optimal portfolio will be a complex **iterative process**, requiring for example the use of **probabilistic simulation models**. Base case financial projections can be developed and sensitivity analysis then applied to key assumptions to determine upside and downside scenarios.

5. Executing a growth strategy effectively

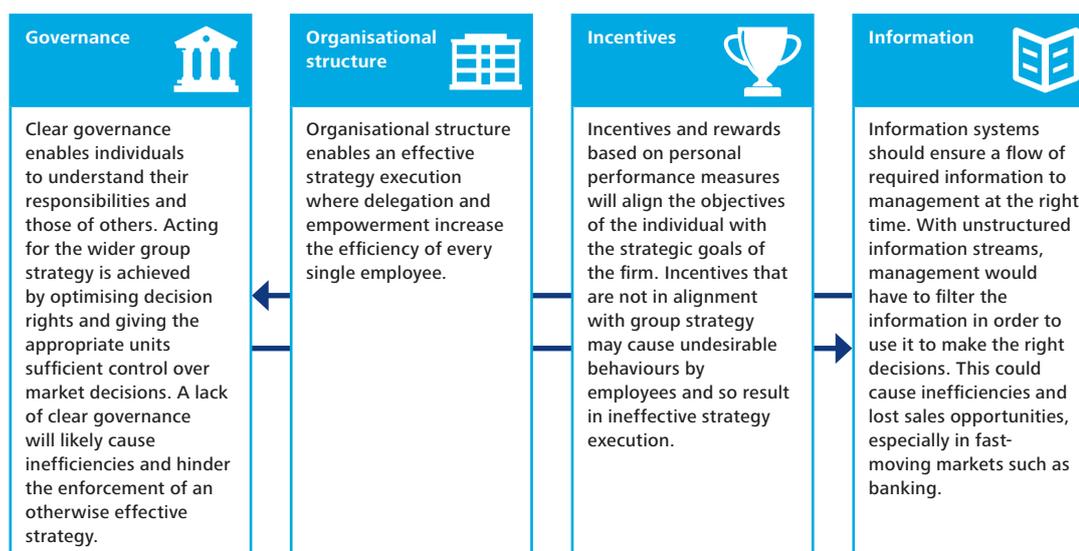


Once a bank has determined a proper growth target, identified a suitable area for growth and constructed an appropriate growth portfolio, the focus shifts to strategy execution. This chapter discusses how a bank should equip itself for successful growth.

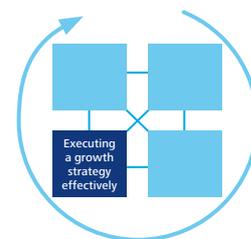
5.1 Building blocks for successful strategy execution

Re-organisation is what often comes first to the mind of management when thinking of ways to execute new strategies. There is a common belief that strategic projects fail due to **inadequate or inappropriate organisation**. However although organisation is an essential requirement for successful strategy execution, it is only part of the story. There is no such thing as a single parameter that enables a firm to execute strategy successfully. There are four building blocks that, if configured correctly, will enable firms to improve their strategy execution (see Figure 9).¹⁴

Figure 9. Building blocks for strategy execution



None of these four building blocks stands on its own. They are interlinked, and only by taking a comprehensive view of all four elements will the process of strategy execution be enhanced.



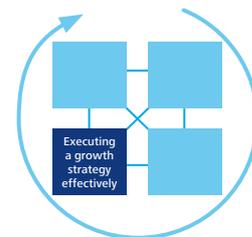
5.2 Design the governance

Banks face many demands from their various stakeholder groups. In response to the market turbulence of the past few years, increased client demands and heightened regulatory requirements, banks should consider extending the governance framework deeper into the organisation. This can be achieved by implementing a governance operating model.¹⁵

A governance operating model is used by the board of directors and management to translate the elements of governance into practices, procedures and job responsibilities. The table below provides an overview of how the four components of a governance operating model can be tailored to foster growth.

Components	Sub-components	Growth-enabling characteristics
Structure	<ul style="list-style-type: none"> • Committee mandates • Organisational structure and reporting lines • Resource allocation 	<ul style="list-style-type: none"> • Continuously align the board's and management's mandates ensuring that growth objectives are deeply rooted across the bank • Establish a flat organizational structure to provide for fast and efficient reporting lines • Provide for organisational flexibility to enable prompt reaction to changing circumstances • Facilitate the flow of resources to value creating initiatives away from low-impact projects
Oversight responsibilities	<ul style="list-style-type: none"> • Authorities and responsibilities • Management accountability • Reporting, escalation and feedback procedures 	<ul style="list-style-type: none"> • Assign authority and responsibilities to create commitment to execute growth strategy initiatives • Assign accountability to the level where strategy execution occurs ensuring vertical alignment of objectives (from top management down to operational staff at execution level) • Allow for bi-directional escalation and feedback procedures giving opportunity to signal flawed growth initiatives or new opportunities across the organisation
Talent and culture	<ul style="list-style-type: none"> • Core beliefs and behaviours • Leadership development and talent programmes • Rewards and incentives 	<ul style="list-style-type: none"> • Support a culture that values responsibility taking and ownership for growth execution at all levels of the bank • Ensure that senior staff leads by example of entrepreneurial behaviours and ownership mentality • Establish leadership succession routes that reward staff for taking responsibility and ownership in strategy execution • Incorporate staff performance on growth initiatives as key components in compensation and incentive plans
Infrastructure	<ul style="list-style-type: none"> • Policies and procedures • Reporting and communication • Technology and information 	<ul style="list-style-type: none"> • Avoid overly-prescriptive policies and procedural norms to ensure that growth execution can evolve flexibly as required • Remove barriers to information ensuring that the strategy process is embraced by employees at all levels of the bank • Ensure cross-functional and multi-level involvement in the definition of structure, content and KPIs in reporting. Use communication tools targeted for growth strategy execution

A robust governance operating model emerges when all four components are appropriately defined for the growth ambitions of the bank. This is what differentiates a regular governance operating model from one tailored for growth. The following part-chapter suggests how organisational structure can be shaped to support growth.

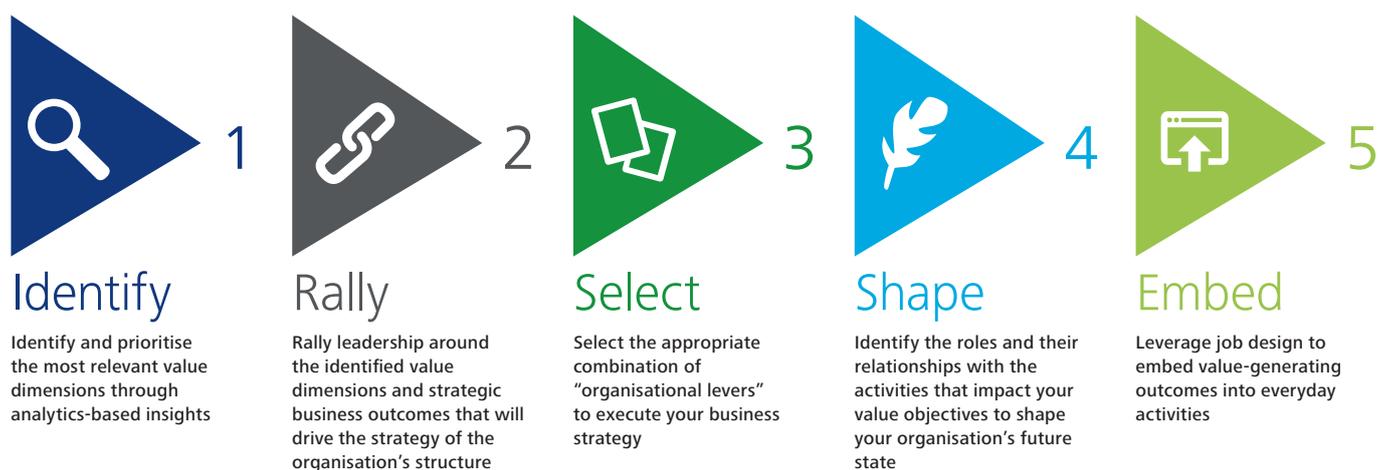


5.3 Shape organisational structure

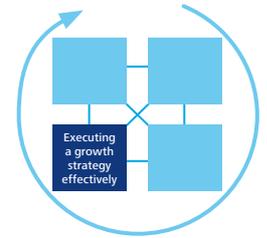
Organisational structure can be seen understood as a shell covering the way that decisions are reached, how information is gathered, managed and shared, and how incentives are used to align business and employee objectives. Managers must recognise that a one-size-fits-all organisation structure for growth does not exist. Each bank must determine the best organisation structure, on the basis of its growth objectives, organisational peculiarities and resource base.

Many banks struggle to identify which capabilities within the organisation require investment and attention in order to reaching their target growth objectives. The Deloitte Organisational Value Generation (OVG) framework was developed as a value-focused, analytics-driven guide for companies to uncover, define and organise for **business performance improvement**.¹⁶

Figure 10. The five guiding principles of Deloitte’s Organisational Value Generation framework



The **elements of the organisation structure** with the **highest impact on value generation** need to be identified and given prioritised attention. To achieve growth successfully, the governance model, organisational capabilities, and workforce need to be combined in an appropriate way. While most jobs in a bank focus on operational tasks, there are always influential roles that drive a disproportionate share of value. These roles make up the bank’s critical workforce segments. Identifying these key roles is crucial for the design of the organisation’s growth-enabling future state. The OVG framework enables banks to assess whether their operating model and workforce are appropriate for successful achievement of their desired growth strategy objectives. It also helps to determine the requirements for governance, the workforce, and organisational capabilities that are needed for successful growth.

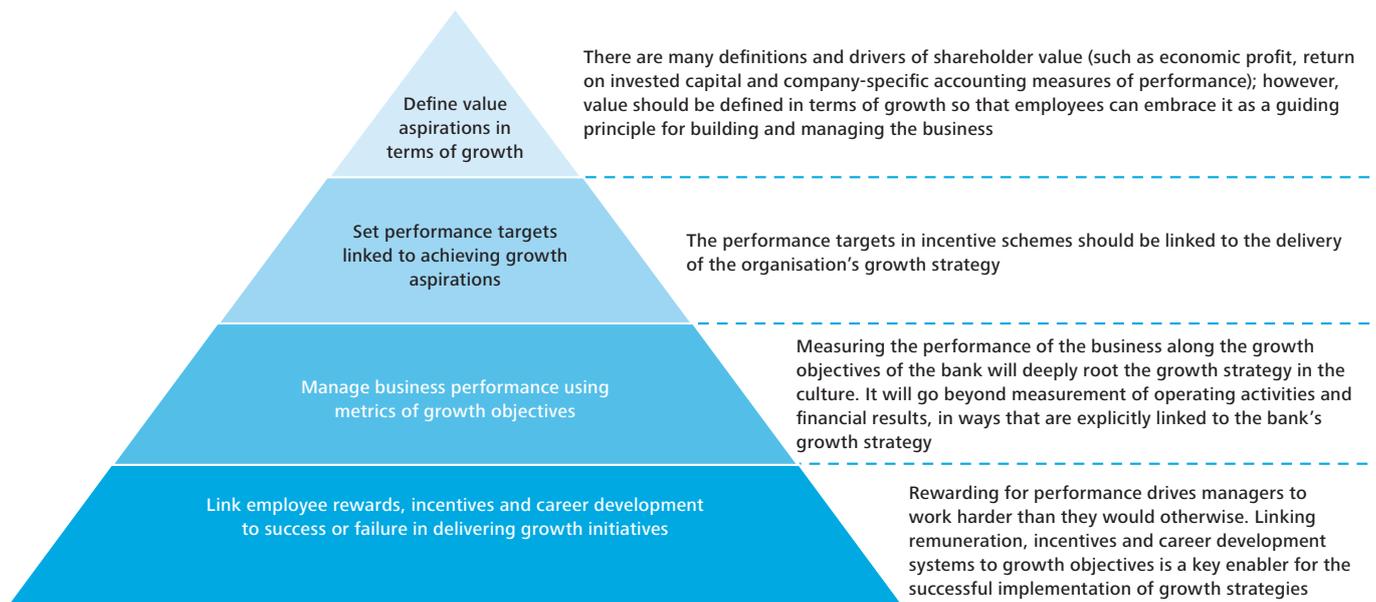


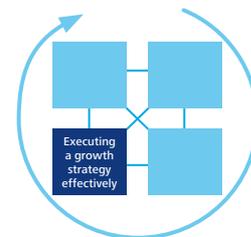
5.4 Design the incentives

In order to create effective incentive systems that foster growth initiatives, banks should look **beyond pure monetary aspects**. Culture is at the centre of a successful incentive system. At its simplest, a company's culture addresses two basic questions faced by each of its employees: **'What must I do to get ahead in this place?'** and **'How do I need to behave?'** Once employees can identify the right answers to these questions, they can adapt their behaviour accordingly and move their careers in alignment with company objectives. For growth-seeking banks, it is essential to tie these behavioural norms to the growth objectives and communicate these appropriately to staff.¹⁷ Of course, incentives and remuneration play a crucial role in shaping the corporate culture. They must be designed in such a way that the desired culture is reinforced and objectives of individuals are aligned to those of the bank.

Empirical evidence shows that a progression from strategy, to value drivers, to targets, to measurements, to rewards forms the backbone of performance management systems at leading companies.¹⁸ The performance pyramid in Figure 11 summarises this connection.

Figure 11. Performance pyramid





5.5 Use information effectively

Many banks have come to appreciate the value that exists in the vast amount of information and data they process on a daily basis. It is important for monitoring performance to focus on data that are relevant to the execution of the desired growth strategy and for reporting on progress with strategy implementation. Deloitte has identified **four elements of management reporting** that, if designed appropriately, will help banks to execute growth strategies more effectively. These are: (1) content, (2) value, (3) processes and (4) systems.¹⁹

(1) Focused and balanced reporting content. Management reporting is vital for measuring the extent to which targets are achieved and for indicating what corrective measures might be needed to bring performance back towards the growth strategy targets. Experience shows however that reports are often limited to providing a number of financial KPIs. Meaningful reports also need to include non-monetary information in order to gain a comprehensive picture of the strategy execution process, for example by including **information** relating to the **market situation** and **competitors**. In addition, there should be a balance between historical and forward-looking metrics. This will allow management to anticipate future developments and recognise if and when a change of a selected growth strategy may become necessary.

(2) Value-driven reporting. The information contained in any performance report should provide value for the bank, but such information comes at a cost. Whereas these costs can be identified with moderate effort, the value of information depends on its relevance and applicability to the decisions that are made. Hence information is valuable only if it influences decisions such that strategically sound actions are taken. A management information system is only effective when the value of the information it produces exceeds its cost.

(3) Standard reporting processes. The reporting process should provide for clear responsibilities, unambiguous steps in the reporting process, and appropriately timed intervals for the submission of reports to management. Especially for large banks with many units and integrated functional areas, high levels of standardisation are necessary to ensure that information is reported in a timely manner with the desired quality at each management level. Furthermore highly standardised management information systems are easily transferable to other units of the bank with only few minor changes.

(4) Integrated reporting systems. State-of-the-art management reporting systems are not based on standalone solutions and spreadsheets. Superior solutions integrate several data sources, and harmonise and automate different reporting streams across functions within the bank. By integrating information from multiple sources, and by eliminating redundant information, reports will provide management with new insights. An example would be the integration of the information management system with the risk management tool enhancing decision-making on both performance *and* risk.

6. Conclusion

Empirical evidence shows that **many banks struggle to achieve profitable growth**. We believe that one of the main reasons for this is their **lack of a systematic growth methodology**. While growth can be found on the agenda of many banks, they have been unable to transform sufficiently their growth strategies into sustainable and value-creating initiatives. It is evident that there are many growth opportunities for banks. A **one-size-fits-all strategy does not exist**, as banks have to set achievable growth targets within their financial resources. As a result the optimal growth portfolio will differ between banks. Equally important, banks have to keep up with the **dual challenge of growing both today's business and also the business of tomorrow**. While the protection of the current core business can be achieved by continuing to service existing client segments through current product offerings, **a bank with real growth ambitions may need to re-invent itself radically**, by investing in adjacent or new markets. If systematically implemented, such long-term oriented growth strategies can help banks to maintain a sustainable competitive position.

We believe that this White Paper will **help bank executives to address today's growth challenge** and find solutions to the question of how their bank can be positioned to keep up with the ever-increasing pace of innovative change. It has been written to **provide banks with a practical and systematic approach** as to how they can define an **appropriate growth target** for their specific business, where potential **areas for growth** may be found, how a reasonable **portfolio of growth projects** can be structured and, finally, what issues they should address in order to **execute growth strategies effectively**. The report has also discussed the expected impacts of innovation and digitalisation on the banking industry.

For banks that are considering whether they should pursue a growth strategy and how to do it, or for banks that may already have taken the first steps towards realising a growth strategy, this report can serve as a solid basis for their ambitions.

Notes

- 1 Deloitte report: «Elements for successful growth in financial services – Poised for opportunities», 2013
- 2 European banks sample: n=20: Allied Irish Banks, Banca Monte Dei Paschi Siena, BBVA, Banco Sabadell, Banco Popular Espanol, Barclays, BNP Parisbas, Crédit Industriel et Commercial, Credit Suisse, Danske Bank, Deutsche Bank, DNB ASA, Intesa Sanpaolo, Natixis, Raifeissen Bank International, SEB, Standard Chartered, Swedbank, UBI Banca, UBS (Source: Bloomberg); Swiss banks sample = 283 (excl. UBS and Credit Suisse): based on the publication «Die Banken der Schweiz 2013» by the Swiss National Bank (SNB) excluding UBS and Credit Suisse, 2014
- 3 Deloitte analysis of the 2014 annual reports of all Swiss banks listed on the Swiss stock exchange, 2015
- 4 Higgins, Robert: «How much growth can a firm afford», Financial Management 6 (3) p. 7-16, 1977
- 5 Deloitte report: «Adjacent Growth Plays – An unexploited gold mine or a distraction from core business», 2011
- 6 Deloitte report: «The Analytics Playbook – Taking your clients on the Analytics Journey», 2014
- 7 Deloitte report: «Big data – Time for a lean approach in financial services», 2012
- 8 L. Keeley et al. «Ten types of innovation», John Wiles & Sons; Deloitte Development LLC, 2013
- 9 Deloitte report: «The Innovator’s Manifesto: Deliberate disruption for transformational growth», 2011
- 10 Bansi Nagji and Geoff Tuff: «Managing your innovation portfolio», Harvard Business Review, May 2012
- 11 Deloitte report: «Digital Evolution, Where next for the consumer facing business? », 2014
- 12 Deloitte report: «Digital disruption in wealth management», 2014
- 13 H.Markowitz: «Portfolio Selection». The Journal of Finance 7 (1): 77–91, March 1952
- 14 Harvard Business Review: «The Secrets to Successful Strategy Execution», 2008
- 15 Deloitte report: «Developing an effective governance operating model – A guide for financial services boards and management teams», 2013
- 16 Deloitte report: «Generating sustainable value through organization design: Capitalizing on Technology, Media, and Telecommunications trends by transforming your organization’s structure», 2014
- 17 Deloitte report: «Culture for sceptics – the catalyst for strategy», 2013
- 18 Deloitte report: «Strategy Execution: Linking Value, Metrics, and Rewards», 2007
- 19 Deloitte report: «Communication by management reporting», 2013

Appendix I – Descriptions of growth levers

Growth levers: developing core business

Growth levers		Characteristics and examples	
1 Develop core business	Expand core business	Expand distribution channels	<ul style="list-style-type: none"> • Redefine existing distribution channels or developing new ones to connect your company's offerings with your clients • E-commerce has become a dominant force in recent years, but traditional channels such as physical branches are still important
		Enhance Sales force effectiveness	<ul style="list-style-type: none"> • Sharpen focus and effectiveness of sales force through training and coordination of activities • Boost sales productivity and deliver high-quality results by establishing consistent and controlled selling processes • Create a more capable sales force by identifying and teaching the techniques of the top sales performers • Improve conversion rates and sales cycle times by aligning the sales process with client buying behaviour and decision points • Enhance sales team efficiency by increasing the adoption of productivity-enhancing tools and processes
		Optimise pricing and profit model	<ul style="list-style-type: none"> • Refine pricing: rethink the baseline for pricing , create price bundles, consider rebates and discounts • Align the profit model with the overall business strategy and strategy for innovation • Innovative profit models can provide new ways of converting a firm's offerings and other sources of value into cash
		Improve products/ services	<ul style="list-style-type: none"> • Enhance product functionality and service quality, or innovate through branding • Innovate to improve product performance: address the value, features, and quality of the company's offering • Innovate to improve services and enhance the utility, performance, and apparent value of an offering
		Enhance client experience	<ul style="list-style-type: none"> • Develop lasting client experience around products or services, moving beyond functionality and quality • Client experience innovations are all about understanding the deep-seated aspirations of clients and users, and using those insights to develop meaningful connections between them and your company
		Use profitability reporting	<ul style="list-style-type: none"> • Gain in-depth knowledge about product and service data, to understand main drivers of profitability • Banks need to improve their understanding of the factors that contribute to profitability • The assessment of profitability should take place along three dimensions: product, client, and advisor profitability
	Leverage hidden assets	Leverage hidden financial assets	<ul style="list-style-type: none"> • Untap the potential of currently-unused financial assets within the firm to invest in growth opportunities • Banks possess hidden skills and capabilities that are not used in day-to-day operations, have strong business relationships that can be exploited in different ways, or they possess client information that is not fully leveraged for value
		Leverage hidden know-how	<ul style="list-style-type: none"> • Untap the potential of currently unused know-how and apply these skills and knowledge in implementation of growth opportunities • Encourage idea generation from within the organisation and facilitate the collection of all ideas into an online repository • Develop IP internally with commercial potential • Create relationships with patent attorneys for opportunity development • Fast track patents and commercialisation of IP
	Develop the long tail	Promote sales of niche products	<ul style="list-style-type: none"> • Explore ways to sell lower-volume niche products at a profit in order to retain existing revenue potential • Focus strategic initiatives on niche products that are usually overlooked

Growth levers: expanding into adjacent market areas

Growth levers		Characteristics and examples	
<p>2 Expand opportunities adjacent to core</p>	Develop products	Offer new products	<ul style="list-style-type: none"> • Develop products entirely new to the firm and or the industry • Develop ideas with potential into business projects • Commercialise new products and business opportunities • Use M&A/JV/alliances to gain critical mass
		Offer new products system (complements)	<ul style="list-style-type: none"> • Develop a system of complements around existing products to foster sales of an entire product group • This is fostered through interoperability, modularity, integration, and other ways of creating valuable connections between otherwise distinct and disparate offerings • Product system innovations help you build systems appeal to clients and create a defence against competitors
	Develop new markets	Offer new geographies	<ul style="list-style-type: none"> • Expand the business to new geographical areas, nationally and/or internationally
		Serve new client segments	<ul style="list-style-type: none"> • Expand into client segments currently not serviced
	Adjust value chain configuration	Conduct backward integration	<ul style="list-style-type: none"> • Expand the business by moving backwards in the value chain, into areas of activity occupied by suppliers to the existing business
		Conduct forward integration	<ul style="list-style-type: none"> • Expand the business by moving forward in the value chain , into areas of activity occupied by clients to the existing business
		Adjust network set-up and service deployment	<ul style="list-style-type: none"> • Rethink the current value chain setup and explore opportunities to benefit from skills of available network partners, outsourcing arrangements and adjustments to the structure of the business. • In today's connected world, no company should do everything alone. Network innovation provides a way for firms to take advantage of other companies' processes, technologies, offerings, channels and brands • These innovations mean a firm can capitalise on its own strengths while harnessing the capabilities and assets of others

Growth levers: radically new business

Growth levers		Characteristics and examples
3 Explore radically new business	Redefine product usability	Create demand for new use of existing product <ul style="list-style-type: none"> • Explore opportunities to market re-invented methods of using existing products to generate demand that has not been existed previously
	Create new markets	Develop markets entirely new to industry <ul style="list-style-type: none"> • Explore growth-generating market activities that are entirely new to the industry but exist in other business areas
		Develop markets entirely new to the world <ul style="list-style-type: none"> • Completely re-think doing business, and develop new market activities to generate growth

Growth levers: innovation and digital

Growth levers		Characteristics and examples
4 Transversal levers	Innovation	<ul style="list-style-type: none"> • Core innovation is equivalent to steady change to the known • Adjacent innovation is used to leverage current assets and capabilities or to change the dynamics in current markets (i.e. extending the service and product shelf) • Transformational innovation is required for big changes aimed at shifting customer expectations and competitor actions (i.e. to create new markets or unique propositions)
	Digital	<ul style="list-style-type: none"> • Digital innovations change what may be offered to clients and how they are developed through various platforms and technologies such as mobile, social, analytics, cloud, and cyber • Digital improvements are possible across all types of innovation, from core to transformational innovation

Appendix II – List of abbreviations

FTE	Full time equivalent
IRR	Internal rate of return
KPI	Key performance indicator
MiFID	Markets in Financial Instruments Directive
NPV	Net present value
OTC	Over the counter
OVG	Deloitte Organisational Value Generation framework
R&D	Research and development
ROI	Return on investment
SGR	Sustainable growth rate

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