Deloitte.

The CFO Program

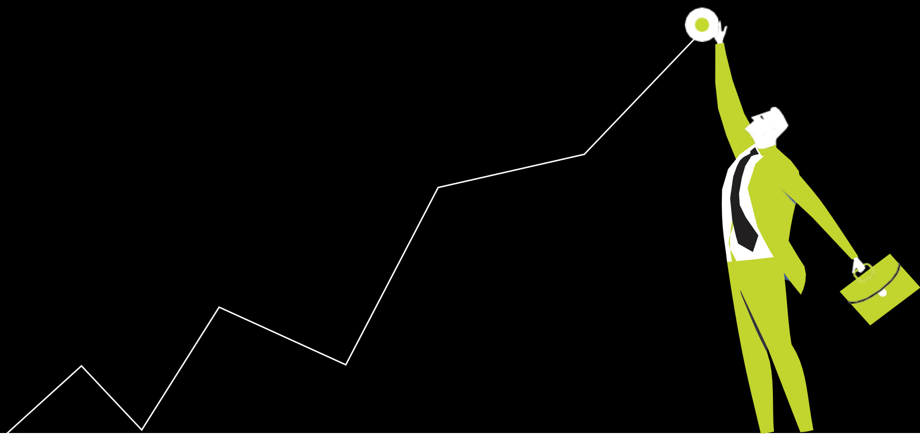
CFO Perspectives

India | CFO Newsletter | October 2020

For private circulation only

CFO Speaks

Vijit Anand
Senior Director – Finance
Purplle.com



1 How do you see the current state of economy and the e-commerce industry in particular? By when can we expect "business as usual" and what changes will we see in the new normal?

I am positive that the Indian economy will become more resilient and come out stronger from this adversity. I do concede that the current state is stressful for everyone globally; however, the situation in India is peculiar because some of our economic indicators were muted even before the emergence of the COVID-19 pandemic. We were anyway facing challenges related to slower GDP expansion and unemployment; in the wake of the pandemic, the challenges have amplified. After 1979, this is probably the first time that India will de-grow, and this will lead to job losses. We need to think more structurally to overcome this phase and thus, it is important to focus towards reskilling our people to help them harness opportunities that will come in the future. The government also needs to revamp its policies to support the industry and skill requirements of tomorrow, with a special focus on MSMEs (Micro, Small & Medium Enterprises). In the current situation, the government and financial institutions need to support MSMEs to prevent them from collapsing, as that will be a huge challenge for the country's economy in the long run.

The e-commerce industry will continue to grow in the current scenario due to the three major advantages that it provides to consumers with the three Cs - Convenience of shopping, Choice of products, and Cost effectiveness. We, as an industry, need to realise this to reap the benefits, and provide more efficient deliveries by utilising technology to our advantage.

Additionally, the online platform makes it easy for consumers to return or exchange products that do not meet their needs. Coupled with contact-less delivery and digital payments, we are witnessing consumers participating whole-heartedly in the online shopping experience.

It may be a bit of a futile exercise to predict when businesses will return to "as usual" mode – it may be longer than we anticipate. Organisations must adapt to the new consumer behaviour, and digital marketing will be the key to growth. Organisations using digital channels to reach their consumers will recover quickly as compared to the others. For example, demonetisation helped boost the digital channel for payments, and the current situation has added to this. We are seeing an increased penetration for digital modes that are being used for payments, as compared to the cash-on-delivery option earlier. Adoption of digital payments has increased in tier-II and III cities too. This consumer demand for new ways of operating will translate to a huge opportunity for Fintech companies as well.

2. What are the challenges and key drivers for Indian start-ups?

India's GDP per capita is US$2,500, and we stand 139th in the world. This provides a huge headroom for growth. We have the opportunity to create more jobs, and India is a great market. If Indian start-ups can address the right needs, we will continue to thrive and contribute significantly to improve the GDP per capita for our country. In the first stage, a start-up must demonstrate its viability by proving its concepts and set-up operations, which allows investors to see the value in the business proposition. However, the second stage is more demanding when start-ups have to scale-up by attracting more investments and hire more people. Fortunately, things have been better in the recent past wherein an increasing number of people have been joining start-ups to be part of the growth story. Today, people are ready to experiment at their jobs by taking on challenges and learning new skill sets. Also, the funding options have grown in the last few years, and there are more opportunities for them now. Having said that, here are the two major challenges:

- We need to understand that due to COVID-19 slowdown, if traditional businesses do not run well, many investors and venture capitalists will not have the same amount of money to invest in start-ups.
- There are few start-ups which work only for valuation rather than working on profitable unit economics. When some of them fail, it mars the sentiments—this dries up investments.

However, with good talent shifting to startups and the latent demand in India, I am quite positive about the growth of well-run startups in India.

3. As a CFO, what is your strategy for growth, especially in a business like yours?

We realise that Indians do spend on discretionary items. However, there is just a few physical stores selling beauty and personal care products under one roof. These stores are typically in the malls where rentals can be afforded by only the bigger brands and hence, a large part of India is under-served. Additionally, beauty, personal care, and grooming is a segment driven by personal preferences; therefore, product knowledge is an important pre-purchase driver. Thus, our idea is connect with more people through our platform, help them with buying the right kind of products to suit their needs, and have repeat buyers on our platform through great service. We will continue to provide our customers with quality products at an affordable price alongside superior services (such as tips on products buying, grooming, and personal care, faster delivery, and easy payment options). We have also been hiring beauty experts in our workforce to elicit first-hand feedback on beauty and personal care products, and understand customer preferences better. We associate with new brands only when the sellers have complete knowledge of their products, rather than falling for attractive product packaging. We do not believe in false product promises from our suppliers; rather, we choose to stay with the facts and prioritise product quality, which will sustain in the longer run. We also believe in ethical advertising to market our products.

Overall, these strategies have helped us grow during the pandemic too—we witnessed positive double-digit growth in the last few months. We currently have six warehouses in India and we are further expanding to develop a good ecosystem of logistics partners, driven by automation and technology. This makes our transactions and reconciliations easier as compared to the manual processes, and ensures that our deliveries are faster.

4. You worked at a leading established company and now, you are a part of a start-up. How has your journey been? How does the role of a CFO differ for a start-up entity versus other mature organisations?

I was given a great learning ground and diverse exposure at Hindustan Unilever Limited (HUL) where I started my career with procurement and moved to export and finance. Thereafter, I was the CFO for Lakme salons and later, I joined hands with the GT sales business for HUL. These roles gave me a rich gamut of experiences and learnings that I want to apply in my new role here. It is an exciting change and I am looking to expand my canvas. Here are some of the observations that I have from my new role:

- Level of detailing in decision-making is more in a start-up as compared to the larger companies. Further, decision-making has to be faster with an eye on the size of impact.
- You tend to manage and mitigate a wider variety of risks.
- Start-up CFOs have a wider role in creating strategy and leading execution. We need to set-up the process, make our people understand its need, and deliver on executing them.
- Resources are always scarce; thus, one needs to optimise a lot more, and prioritisation is significantly more important.
- Challenges related to liquidity and volatility are more as compared to a mature organisation.
- KPIs and key deliverables for business and functions are not well defined, and thus, there is a constant need to evolve and crystalise them.
- Leadership skills remain very important, and this is where past experiences have helped me settle faster.
- Understanding the creativity of the organisation and its culture is another non-negotiable in a startup.

5. Given that your business is technology driven, how do you manage risks related to payment frauds and cyber threats? Do you think it is the right time for organisations to invest in digital transformation?

Digital transformation is a great opportunity for business. This does not involve only the technology team, rather, all the functions have to be in accord to derive value for the business. In our organisation, we have tools and processes in place, and we are picking up fast on Artificial Intelligence (AI) algorithms to help detect payment frauds and cyber threats. However, we cannot say that our transition process of being digital is complete. It is an evolving process and there are new threats and new technologies every day to which one needs to keep updating, to make sure that the systems and processes are robust. Digital transformation cannot be a one-time agenda, especially for e-commerce companies like us.

We have started to invest a lot on AI tools to make sure that customers have a more personalised experience when they visit our portal. Our internal technology teams develop some of these technologies, whereas we outsource a few. We rank areas of data security and privacy extremely high in our agenda. We learn from the pattern in historical data to understand consumer behaviour better and give them a personalised shopping experience. This also helps us to design better advertisements and promotional campaigns, accelaerating the overall growth for the business.

6. **What are some of the experiences and learnings from the COVID-19 lockdown in India that you would like to share with other CFOs?**

It has been a difficult time for all businesses and we were in the same storm as others, but probably, not in the same boat. We were impacted at the beginning of the lockdown and after a few week, we got lucky unlike some of the other businesses who have been affected for over a few months now.

Here are some of the experiences and key learnings that I would like to share:

- Working capital and cash is important to run businesses, especially if the revenue stream is uncertain.
- Amidst the pandemic, we saw opportunities to focus on geographies which were not impacted or were significantly less impacted. It helped us to grow despite the lockdown.
- We need to invest in people ahead of time. Even with COVID-19, we have not made any restructuring decisions. In fact, we have been actively hiring; we have hired more than 150 skilled people during the lockdown too. In addition, we have been looking for more employee-favouring policies to ease their work pressure and keep them motivated in the current scenario. For example, we worked towards better medical policies, incorporated a lunch hour alongside evening cut-offs for meetings, and engaged regularly with employees through townhall sessions, to keep their morale high.
- There are so many humanitarian stories around, which have inspired us and kept us motivated. Some of these are lessons for a lifetime. Inspired by the founders of Mirchi & Mime (a restaurant) which hired specially-abled individuals at their restaurant, we have hired 14 such individuals as permanent employees with us and this has been helping all of us learn first-hand how "business" means so much more than top line and bottom line.
- Many a time, we used to rule out options saying that they are far-fetched. Today, we have embraced the out-of-the-box thinking approach that has helped us to navigate smoothly in the times of the pandemic. For example, since years, we were talking about paperless offices but it has only now become a reality ever since the lockdown; with the printers away, we see that offices are functioning with less use of paper, and working from homes in a virtual and digitally-connected world is coming to be true.

COVID-19 is forcing businesses to develop adaptability and resilience, and that is the most important secret sauce for success in the future.

Expert views

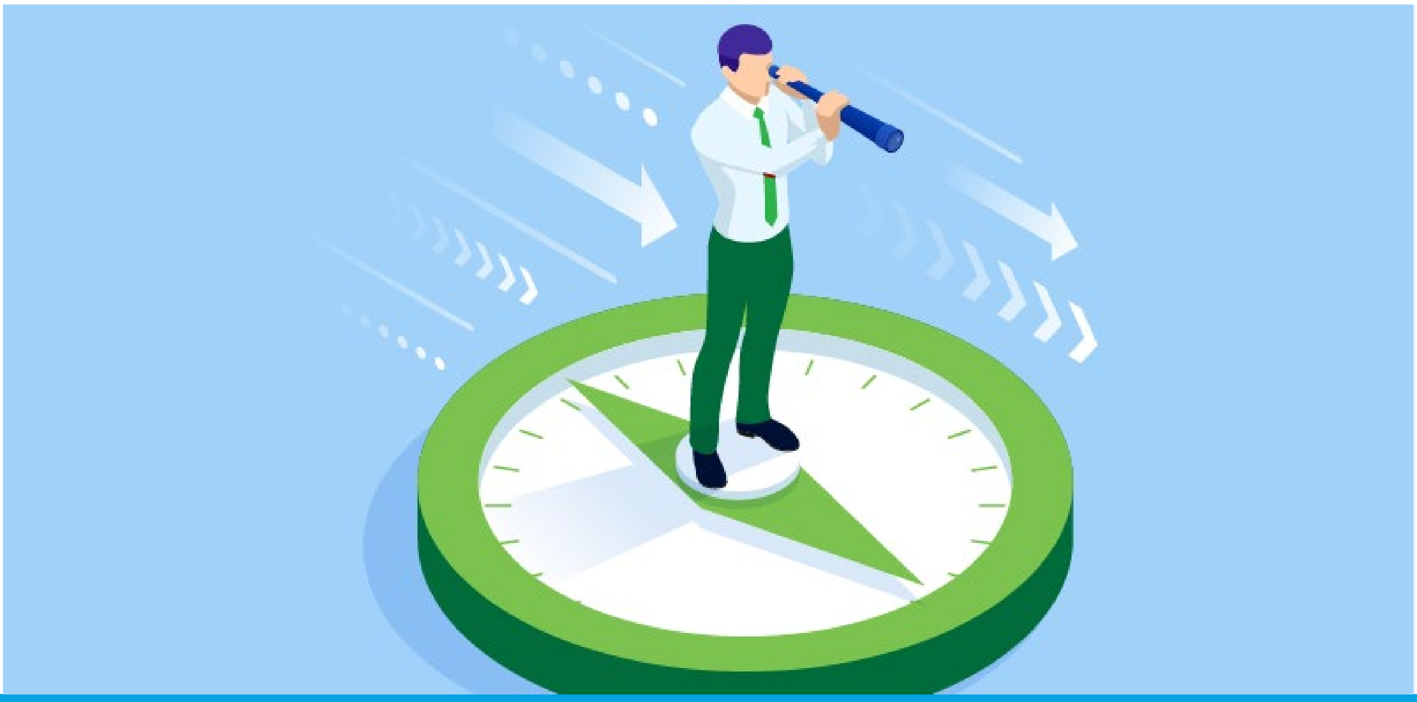
Creating an effective transaction-monitoring framework

The rapid developments in financial information, technology, and communication sector allow money to be moved anywhere in the world with speed and ease. At the same time, criminals continue to evolve in their laundering techniques. They are identifying and exploiting the system loopholes to move illicit funds using new technologies such as online banking, electronic payments, and cryptocurrencies across borders at breakneck speed. Globally, the estimated amount of money laundered each year is two−five percent of the global GDP, or ranges from US$800 billion to US$2 trillion . This creates complex and layered transactions which are real-time, difficult to monitor, and hard to detect with traditional approaches. In this pandemic, there is a significant increase in volumes and complexity of transactions. Banks and financial institutions are under scrutiny by regulators and expected to fulfil their Transaction Monitoring (TM) obligations, as part of their overall Anti-money Laundering (AML) compliance programmes.

AML transaction monitoring is one of the key pillars of any AML compliance programme. Increased volumes, combined with analysis of complex patterns and historical data, makes adopting a technology solution for TM an essential element of any AML programme. It is the responsibility of financial institutions to demonstrate that their TM system is properly implemented, sufficiently staffed, and is effective based on the risks the organisations face, the nature of size, and complexity of its business. However, detecting money laundering 'Red Flags' using the traditional rule-based TM solutions is becoming increasingly difficult because of the complex nature of transaction patterns/scenarios, quality/availability of data, ineffective interface with source systems, and substantial human involvement to clear the false positives the TM system generates. While financial institutions have significantly invested in their TM and sanction screening systems, they are still saddled with manual processes and very low conversion ratios.

It is time that organisations relook at their TM model to improve performance and reduce costs. Here are some of the steps:

1. The first step in an effective TM system is to Know Your Customer (KYC). Organisations should have the knowledge of their customers, their business, and the expected nature of transactions based on due diligence not only at the time of on-boarding but also on periodic or trigger events. This will help them identify unusual/anomalous transactions which are not in line with the customers' activities or behavioural patterns. This is becoming all the more critical, especially in the current environment where customer behaviours are changing.



2. The biggest challenge for any financial institution is to ensure that their TM systems are configured to achieve regulatory compliance rather than improve performance. They should ensure that the scenarios cover all the risk parameters identified, and the thresholds are configured to enable alerts that are generated with a reasonable degree of certainty. Organisations can also deploy other Artificial Intelligence (AI) or Machine Learning (ML) techniques to identify any suspicious activity that is currently not being flagged by existing rules or profile-based monitoring.

3. Financial institutions should periodically review and refine their rules and scenarios to ensure they remain updated and effective to identify risks which the organisations face. This is true now, more than ever. This also provides an opportunity for organisations to fine-tune the system and reduce false positives. However, they should be cautious and not fall into the trap of setting parameters that generate fewer alerts simply to improve performance statistics.

4. The core of any TM system and its effectiveness is dependent on the quality of data. Banks' systems have evolved over the years, with many of them originally designed to collect and process data for various business purposes which may not be specific for compliance requirements. As a result, these systems are siloed, and the quality of data is often under suspicion and may not be 'fit for purpose'. Financial institutions should ensure that they have a robust data- quality programme that periodically reviews the completeness and accuracy of data that is fed into the TM systems.

The current pandemic has forced financial institutions across the globe to adapt to an entirely new environment. With regulators across the globe and other bodies such as Financial Action Task Force (FATF) coming up with additional guidance combined with increased transaction volumes, changing pattern of customer behaviours, and new emerging risks, the traditional rule-based TM system may not be sufficient. They also need to consider the following measures:

1. Review their TM scenarios/rules to reflect the new risks and changes in customer behaviour so that they do not miss new patterns or get inundated with false positives
2. Rethink their strategy as an opportunity, in terms of using technologies, such as AI and ML in conjunction with the existing TM system, as configuring the existing system for new rules or implementing a new solution will take time.

Using new technologies and analytical tools presents a good 'business case' for creating an effective TM framework. However, it is not just about tools or technologies—rather, an effective AML framework is key to tackling the threats posed by the new normal.

To read the full report of Anti-Money Laundering Preparedness Survey 2020, please **click here**.

[1] Source: https://www.unodc.org/unodc/en/money-laundering/globalization.html

About Deloitte's CFO Programme

The CFO Programme brings together a multi-disciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The programme harnesses our organisation's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

For any feedback, suggestions, or additional information, please write to us at incfo@deloitte.com