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The CFO Program

CFO Perspectives

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CFO Speaks

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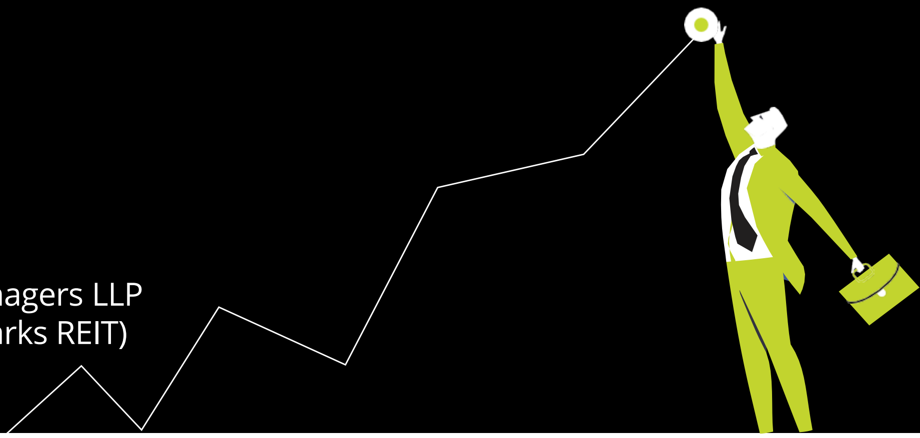


1. **COVID-19 has brought unprecedented times for everyone but particularly affected the real estate industry. How has the changing environment affected you? What are the opportunities you foresee?**
   COVID-19 has been challenging for every sector, including real estate. While residential, retail, and shopping mall businesses have been significantly affected (due to the lockdown), commercial real estate has shown a fair degree of resilience. We have received more than 99 percent of the gross contracted rentals, which speaks for the quality of our clientele and business. One of the important things that helped us during the lockdown is effective managing cash flows and keeping an eye on margins. At Mindspace, we have kept health and safety at the core, creating a secure workplace for employees. We have put in place stringent protocols ranging from ensuring sanitisation, conducting thermal checks, using UV technology (for disinfection) to training to the staff on ground.

   I believe India has huge potential to attract global captive centres, given that the country can offer skilled human capital and cost advantage, which should help long-term demand for office spaces.

2. **With slow progress in the retail and other segments, what are the industry trends you see?**
   Although the pandemic has necessitated the workforce to efficiently Work From Home (WFH), in my opinion, WFM is not a long-term sustainable model for India. Most of this workforce consists of millennials who have moved to metro cities from tier 2-3 cities and live in shared accommodation, which increases data security risk. Also, for this young workforce, office is their happy place; it provides more than just professional growth, ranking high on intangibles such as camaraderie, a social life, and mentorship.

   Creating a constantly motivating environment at homes, outside of office, without any in-person communication is difficult to sustain over a long run. Given the infrastructure at most Indian homes, creating a comfortable work environment at home would be another challenge in the WFH model. Therefore, I believe businesses are expected to get back to a normal work environment. However, this could take a few quarters depending on how things progress.

   Commercial space requirement is expected to get compensated by the need for social distancing norms, causing de-densification, even if certain percentage of workforce continues to WFM. Commercial real estate in India is also expected to see interest from multinational tenants looking to reduce their costs and consider India as a preferred choice.

   We are also taking this opportunity to re-energise our parks and create a differentiated experience for our tenants by adding a host of amenities. These amenities include re-designing landscape and street scape, creating board walks, and revamping external building facades and lobbies.

3. **The level of unsold inventory across major cities in India has increased manifold due to stagnancy in the market. What are the challenges you are facing amidst of these pressures?**
The initial part of the financial year saw occupiers focusing on business continuity, and seamless delivery of services for their global clients, following a cautious approach to committing to larger areas. However, we have seen some spurt in demand from multinationals seeking spaces for their immediate needs.

While the demand for office spaces has softened with tenants taking longer to commit to newer spaces, the tightening of financing by financial institutions is also expected to result in supply contraction. This is expected to provide consolidation opportunities for Grade A asset owners. Therefore, our focus is on keeping our balance sheet strong that will enable us take such opportunities. Besides, the pandemic is expected to see flight to quality from the tenant's perspective as they would look for the landlord's stability, and the standards of health and safety, that the parks have to offer for their workforce. We have therefore, through this pandemic, continued to focus on maintaining high safety standards at our parks.

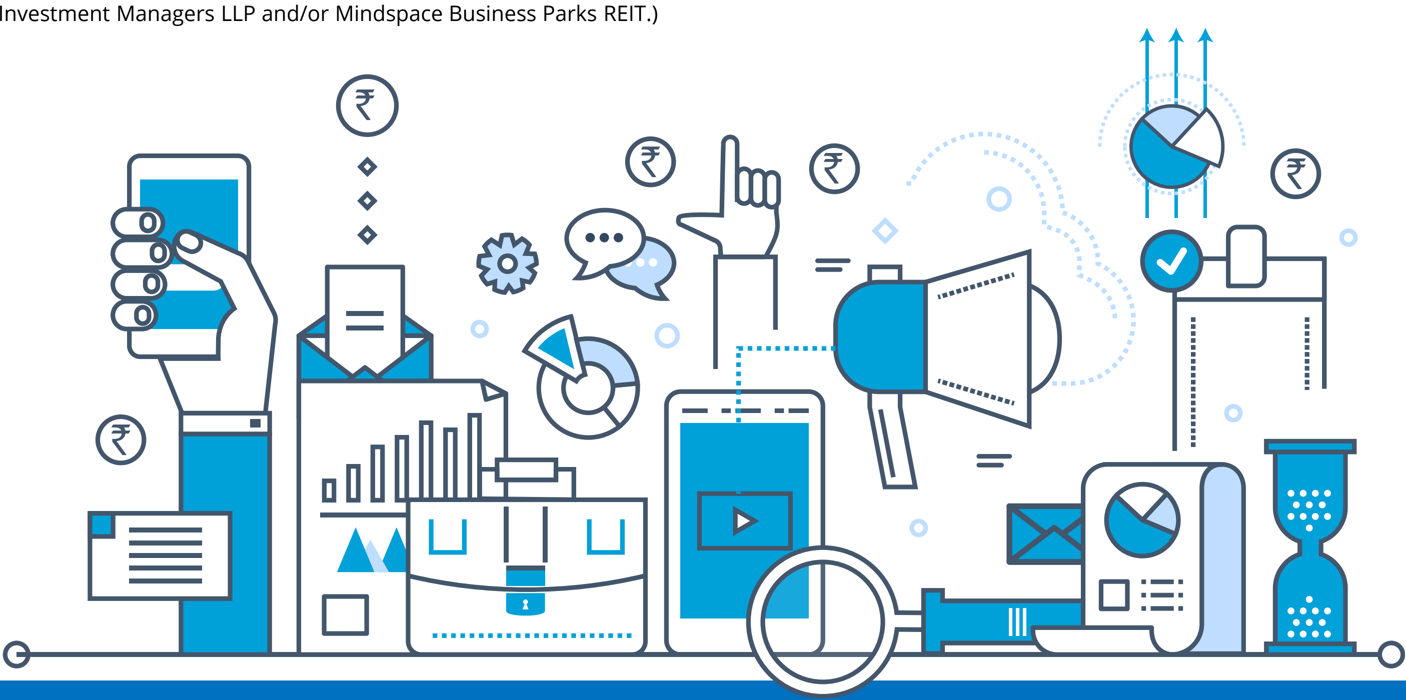
4. **While most industries are moving to more virtual ways of doing things, real estate is about the physical presence. How are you, as a CFO, coping up with the revenue loss and what are the alternative strategies you are working on to improve revenues and reduce overheads and improve returns?**
Fortunately, we have not seen any material revenue losses. We received 99 percent of our gross contracted rentals through the COVID-19 months. In terms of pricing, micro markets, where the rentals have been high and at three digits level, could see softening of rentals or rental re-negotiations. However, this could be a small portion. Other micro markets with sub-dollar rentals have not seen a material decline in rentals. To optimise on costs, corporates could consider moving their backend operations to the markets peripheral to the Central Business Districts (CBD).

Over the past several years, we have been diversifying our tenant mix, pursuing strategies to optimise our costs, and focusing on enhancing tenant experience. The COVID-19 crisis has accelerated the need for those strategic changes. Other areas include the meaningful engagement with customers and employees on health and safety in physical spaces.

5. **How are you able to manage the compliance requirements in the challenging environment?**
I'm a firm believer that governance has to be a culture. Compliance and regulatory requirements are becoming complex by the day and therefore, need close monitoring. Today, technology plays a critical role in monitoring and aiding businesses in ensuring compliances. Creating a robust governance framework is one of the key priorities for any CFO. Businesses need to have robust compliance tracking and monitoring tools.

An external enabling environment is also essential for the efficient running of this sector. In terms of government policies for the real estate sector, in my opinion, ease of doing business, quick approval processes, singe window clearances, and effective forward planning will be key for creating the right operating environment. Policy certainty and transparent regulatory framework can help create a more organised environment and attract larger investments.

(Disclaimer: The views expressed in this interview are those of Preeti Chheda and do not necessarily reflect those of K Raheja Corp Investment Managers LLP and/or Mindspace Business Parks REIT.)



Expert views

The future of fraud risk management in India

The COVID-19 pandemic has caused widespread disruption and exposed vulnerabilities in ways businesses are managed across the globe. Historically, data shows that business disruptions have been followed by a rise in discovery of fraudulent practices. The current business environment is turning out to be no different. The recently released Deloitte India Corporate Fraud Perception Survey, edition IV 2020, too points to a rise in fraud over the next two years, due to large-scale remote working arrangements and a change in business models.

Nearly 43 percent respondents felt that their existing Fraud Risk Management (FRM) frameworks were inadequate to address future frauds. Procurement and information technology were identified as processes most vulnerable to fraud risks. Third parties were identified as being most likely to indulge in unethical practices amounting to fraud, underscoring the deteriorating trust in business.

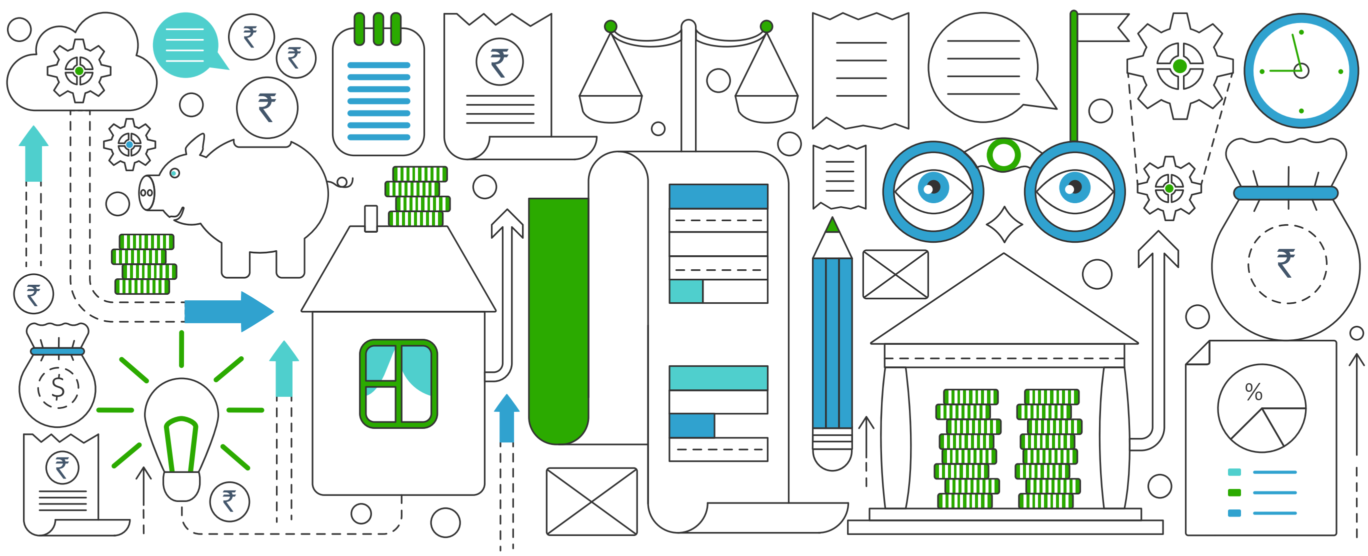
What has led to this situation and what needs to be done?

In our experience, corporates in India have traditionally focused on fraud detection over fraud prevention. In line with that, FRM systems tend to rely on static data and known fraud scenarios to evaluate transactions. However, these systems can be rendered ineffective in a disruptive environment where critical business decisions (such as adopting new operational models), combined with uncertain market response, require access to dynamic data and the ability to understand how it can translate into fraud risks.

To improve the effectiveness of FRM frameworks, **survey respondents suggested re-allocating their budgets towards adoption of enhanced technologies** that can provide an enterprise view of fraud. While looking for appropriate technologies and tools to do this, one must consider the ability of the tool to integrate structured and unstructured data, and perform advanced analytics on transactions. Organisations should also consider a customised and scalable interface, supported by a subject matter expert (with experience of successful implementation).

The use of technology appears to have helped organisations in these past months to continue with their FRM efforts. About 46.5 percent respondents to the Deloitte India survey indicated that they were able to address fraud immediately, despite remote working arrangements. The most implemented technology tools include Data Leakage Prevention (DLP) systems, tools for data collection and preservation, and case management systems to track control deficiencies. Close to 50 percent respondents indicated implementing (partially or completely) employee behaviour analysis tools, and Artificial Intelligence (AI) and Machine Learning (ML) tools. These data points underscore the role that technology will continue to play in future fraud risk management efforts.

Increased technology deployment can also help organisations respond better to regulatory scrutiny and comply effectively with existing regulatory expectations. Regulatory bodies have cautiously monitored business



changes in the past six months; many of them are now taking strong measures to ensure that fraud risks are managed effectively. The MCA has mandated the disclosure of whistleblower complaints in listed companies, whereas SEBI has called for disclosures of forensic audits (and other fact-finding activities) undertaken from listed companies irrespective of the materiality involved. The RBI mandated banks to adopt an institutional risk-based approach (aimed at getting an enterprise view of risks) to curb money laundering activity. To stay compliant and ensure consistency in disclosures with these increased regulatory obligations, organisations would need to depend on technology. The uncertainty in the business environment has also resulted in deteriorating trust amongst vendors and business partners. Regaining this trust can be possible by strengthening third-party due diligence frameworks and having an open communication channel to address concerns. Additionally, organisations should review their anti-bribery and corruption compliance, and procurement policy to include controls reflective of new business developments.

What more can stakeholders do to better address fraud?

Survey respondents have indicated specific measures that the C-Suite can undertake to better address corporate fraud:

- 57% have said that the board needs to set aside dedicated time in meetings to discuss specific fraud risk management measures.
- 43% have said that the CFO needs to relook at budgetary allocations for fraud risk management programmes on a quarterly basis.
- 37% have said that the audit committee needs to document discussions on fraud and include them in the annual report/other corporate documents.
- 33% have said that the risk and compliance head needs to revise Key Performance Indicators (KPIs) for fraud risk management programmes and enforce evaluations.
- There is also a strong recognition for the value that third parties can bring to fraud risk management initiatives, including independent directors, forensic experts, law firms, and technology companies. As the FRM ecosystem matures in India, organisations should look at using capabilities brought by third-party experts and advisors, including independent directors, law firms, forensic accountants, and law enforcement agencies, to safeguard their reputation.

To read or download the complete article, please click here.

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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.

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